



TOWN CLOSE
Financial Planning

A note on fees

future proofing your finances



A NOTE ON FEES....

If ever there's a topic to get financial advisers and planners worked up it's fees. Here's my tuppence worth on the subject, bearing in mind we work with private clients over the long-term; we don't do one-off transactions.

There are probably as many models as there are planning firms from what I can gather. Our own approach has been to make things as fair and straightforward as we can.

1 – £s not %. A % fee might be appropriate for one-off transactions but that's not what financial planning is about. Therefore, what we are paid should be based on what we do, not what you are worth.

We're working at a very human level with highly complex, multi-layered plans with many moving parts. We are not selling widgets at a margin.

For example, is looking after a couple with £1m across six accounts more or less work than a single person with £2m across three?

The latter could be paying twice the amount of the former. Yet the former has more people and accounts, and therefore more views/opinions to consider and accounts to manage.

In addition, charging % fees can lead to various conflicts and complications:

- Ignoring and/or being disinterested in anything that's not invested, because we're not being paid for it. E.g. you could easily blow yourself up with your "off plan" activities, that we have no influence over;
- Being beholden to market fluctuations when it comes to knowing what our revenue will be, and therefore having to cut services/staff levels accordingly. Or worse yet, having to then "chase" new business to make up the difference;
- Having our judgement influenced by how we earn our income, particularly when it comes to investment and product decisions and withdrawal /income strategies, e.g. recommending the course of action that best suits our (income) interests as opposed to your interests.



That's not an exhaustive list, but it should be enough to give you pause for thought.

2 – Be profitable. There are distinct phases in the way we work – review, plan and forecast, recommend and implement and, finally, manage. Each of these four stages should be charged separately.

And, each of them should be done profitably, having one phase subsidise another can lead to all sorts skewed recommendations.

You can't and shouldn't trust the outcome of the "free" review on offer. It's bound to recommend action.

3. "What for?" not "How much?" I am highly less concerned about people knowing exactly HOW much they will pay from the very beginning than knowing WHAT they will be paying for.

We always give a decent estimate based on previous experience (as a builder does) and confirm a final, capped fee before either side is committed (like all good builders do).

4. In arrears, not advance. Continuing the point above, until you see what we do and feel that's right for you, why should you pay us? Aren't we much better motivated to do an excellent job for you in expectation of being paid, rather than having been paid in advance?

How were you paid at work? Monthly in advance or arrears? Why was that?

5. How much? But, how to establish what your fees should be? I'd like the same for my family and I as you want for yours. That means an income of £XX pm from age YY, both figures are perfectly sane and available to you on request. Added to this, I want financial security for my family should the worse happen and I don't reach age YY.

To a reasonable degree, I know how much I need to save each month to make that outcome very likely. To that, I add what I need to earn today to run our household and live a comfortable life.

To that I add the cost of running a business – staff, rent, insurances, etc., all of which are pretty known too. I prefer to be ever-so-slightly over than under-staffed, you should too.

And, to have a decent office space, somewhere pleasant for you, and us without bothering about postcode too much.



That adds up to a large number. Now it's simply a matter of sharing those costs equitably between you.

There are a limited number of clients that a good planner can look after properly. It's absolutely in your best interests that we don't spread ourselves too thinly. Dividing the large number by the number of clients we can look after is a reasonable starting point.

Then we must take into account the size and complexity of your financial plan. And, reference the amount by which we expect to improve your likely outcome, compared to you managing your own affairs.

A final, thought. You could do what we do. There's plenty of instruction and information online. Similarly, any of us can read up on dentistry or aorta repairs. But, we choose not to because there's just too much riding on the outcome, so we defer to an expert.

At least, that's how I see it.

Jeremy