How Retirement Advisors Get Paid

By Kerry Pechter *Wed, Jun 13, 2012*

Are yesterday's compensation practices preventing you from becoming the retirement income advisor of tomorrow? Here's how some advisors have adapted to a brave new world.

Lots of advisors, brokers and agents would like to reposition themselves as retirement income specialists so that they can do good (and do well) by helping Boomers turn their 401(k)s and IRAs into secure paychecks that last a lifetime.

But financial professionals who choose that path are bound to discover that their old compensation practices don't necessarily suit their new specialty. If an advisor has become accustomed to making money in a certain reliable way, it may not be easy to change.

Today, RIAs (Registered Investment Advisors) typically charge asset-based fees for managing portfolios, while insurance agents accept only commissions for selling insurance products, and registered reps may charge a combination of the two, depending on whether they sell products or provide advice or both. A pure financial planner may charge by the hour or by the plan.

True retirement advisors, however, create income plans that blend investments, insurance, and advice on a variety of topics. They straddle the fee-based, the commission-based, and the planning worlds, and therefore need new and more flexible ways to charge for their services.

Some advisors are already creating hybrid compensation methods to fit their hybrid practices. A few of them spoke recently with Retirement Income Journal. It's arguable that if advisor compensation practices don't evolve, the advice profession won't evolve to meet the Boomer challenge, and fewer Boomers will get the type of retirement income planning services they need.

Deducting commissions

Matt Repass, for instance, is an advisor with Pks Investment Advisors LLC, in Ocean City and Salisbury, Md., who holds insurance and security licenses. To create retirement income streams for his clients, he usually builds ladders of period-certain income annuities.

"Everyday when I speak to people they get a biased opinion from the insurance guy they're talking to who says they can plan everything using annuities. And then the brokerage guy tells them you can solve everything with investments. I always believed it took good investment planning and insurance planning to do the job."

Repass collects commissions for selling annuities and, separately, charges a one percent fee for managing client investments. Taking commissions, he said, doesn't distort his decisions.

"My job as an RIA is to utilize what's in the best interests of my clients," he told RIJ. "I get calls almost

daily from insurance reps who want to lead with the commission amount. You don't stay around the length of time I have paying attention to that."

Sean Ciemiewicz, a fee-based LPL-affiliated advisor at Retirement Benefits Group in La Jolla, Calif., deals with annuity commissions another way: He deducts them from his clients' asset management expenses. "If we're using a asset-based fee and an annuity fits the client, we will reduce the fee by the percentage we're being paid in trailing fees on the annuity," he said in a recent interview.

To the extent that a commission exceeds his standard asset-based fee, Ciemiewicz said he reduces his asset-based fee accordingly. When purchasing a no-load annuity for a client, he will charge 1% on the assets.

Dana Anspach, a fee-only planner and founder of Sensible Money in Scottsdale, Ariz., also charges clients in a variety of ways. She starts with a flat introductory rate of $1,500-$2,000 to run prospects through a detailed questionnaire, and hold a few meetings where she delivers some basic financial information.

"I've done that for many years and it's a very effective way for people to determine if they want to establish relationship," she told RIJ. Clients can then choose a $175 hourly rate for a plan or isolated advice, or a maximum fee equal to one percent of assets under management (which includes the cost of the plan).

Anspach uses a stand-alone living benefit (SALB), aka contingent deferred annuity (CDA), from ARIA Retirement Solutions, and applies it to managed accounts. "It's up to us to find the lowest-cost way to shift the risk to an insurance company," she said. "The solutions ARIA offers are satisfactory in relation to the cost of those options." Transamerica Life has been the provider of ARIA's SALB.

The author of About.com's "Your Money Over 55 Guide" website, Anspach bases her fees not on assets per se but on the amount of decisions she has to look at to create and monitor tax-efficient, risk-appropriate and cost-effective plans and portfolios.

"We try to price our services so that we can deliver value to clients regardless of the account size," she said. "I'm a boutique so I can adjust my pricing. I've been known to lower my pricing for clients who don't want to meet with us [in person]."

As for facing conflicts, Anspach said she likes the concept of longevity insurance (a deferred income annuity that typically starts making payments if an when the client reaches age 85) but acknowledges the "annuicide" factor. "I'm taking money away from me and putting into product where someone else gets money." Charging a commission for an annuity would suit her business model better than charging a fee for researching and recommending annuities, she said.

Testing one's ethics

Gary Phelps, a fee-only advisor at Redrock Wealth Management in Las Vegas, Nev., charges a combination of hourly fees, flat by-the-plan fees, and asset-based fees. He doesn't need to take commissions because he generally doesn't see a need for annuities in his bucket-style retirement income strategies.

"With a diversified portfolio of low-cost index funds and ETFs, your chances of achieving your goals are very high," he says. Nonetheless if an annuity is called for, like most fee-only advisors he'll chose from a slowly growing range of no-load options.

He also avoids commissions because he feels they open the door to ethical concerns. "There are bad apples everywhere, and if you take the conflict of interest out, the chances of getting a bad apple are substantially reduced," Phelps told RIJ.

Of course, he admits that conflicts exist on the asset-based side. Fee-only advisors, for instance, will lose assets if they advise clients to pay down their mortgages. In that case, he said, an advisor has to fall back on the plan and do what's best for the client.

Phelps noted that he's hurting himself, at least in the short run, by eschewing commissions. "A broker who sells a $500,000 client into all variable annuities can walk away with $35,000 in one day," he said. "I make a comfortable living [as a fee-only advisor], but it takes a lot longer and is a lot harder to get there."

Fee-only planner Russ Wild tries to prevent conflicts of interest from occurring at all. "I have from the start charged my clients an hourly fee or a percentage of assets under management," said the head of Global Portfolios in Allentown, Pa. "Either way, it doesn't matter what the clients invest in. If I put 20% of a client's money into an annuity, I will still charge the client the same amount, whether it's an hourly fee or $5,000 a year."

While most of his clients are too wealthy to need annuities, when they do he introduces them to a rep from a low-cost provider like Vanguard and helps them shop for the right policy. "I wouldn't want to sell annuities," Wild told RIJ. "I don't want to sell anything except advice. I think I'm a moral person, but I'd rather not test that."

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