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SEI Study Examines the Changing Fee Model Through the Eyes of Advisors and Investors

Gaps in the Fees Conversation Inhibit Demonstration of Advisory Value

OAKS, PA -- (Marketwired) -- 02/01/16 -- Despite ongoing discussion about the evolution of the advisory fee structure, advisors have been sluggish to make changes due to a persistent fear of losing clients. Based on data from the latest SEI (NASDAQ: SEIC) research of financial advisors and investors, however, this fear is unwarranted. In fact, the reality is advisors were able to retain 90 percent of all clients upon switching to an AUM model, according to the study. The study also found that three-quarters of investors never or seldom discuss fees with their primary advisor, indicating that conversations about fees and pricing models can be uncomfortable for both parties. The lack of discussion uncovers a significant opportunity for advisors to embrace change, engage and educate their clients on the value of the advice they receive.

"Although advisors and clients are not talking about fees today, the media, the DOL and robo-advisors are beginning to seep into the consciousness of the public and someday the conversations may come to the forefront," said John Anderson, Managing Director and Head of Practice Management Services for the SEI Advisor Network. "Most advisors don't charge clients for goals-based planning and advice. For most, compensation -- be it asset under management (AUM) fees, commission-based or both -- is linked to the investment products their clients buy or sell, where advisors' added value is least measureable. Now is the time for advisors to rethink the way they market their most valuable asset: advice."

This primary research among advisors and investors is part of a larger SEI Advisor Network report called, "Fees at a Crossroads: Adopting an Advisory Fee Model that Reflects Your True Value." The report, which was co-authored by SEI Advisor Network and Bob Veres, publisher of "Inside Information," assesses the advisory-fees landscape and explores pricing trends, pressure points and strategies. It also includes actionable steps advisors can take to rethink their fee model, which include: Revisit the value proposition, continue to focus on transitioning out of a commission-based model, scrutinize the costs and profitability of service, segment existing clients and target markets, and factor in technology adoption.

Investors Unclear of How Advisors Are Compensated

The latest SEI research found that a quarter of investors still do not understand how their advisors are compensated, despite ongoing education and disclosure efforts. Among those who know how their advisors are compensated, SEI finds that one-third of mass-affluent and high-net-worth households pay their advisor a percentage fee based on a level of assets under their management, and more than half pay their advisor each time a transaction is made. Among penta-millionaires, 36 percent of households indicate they are not sure how their advisor is compensated, and an additional 5 percent claim they do not compensate for the services they receive.

"Avoiding the fees discussion does not benefit advisors or their clients," said Anderson. "We believe that today's investors want advice and guidance to manage their increasingly complex financial lives, but they also need to understand their fee structures. By keeping the fee and pressure-point dialogue open, it'll allow advisors to clearly articulate a value proposition that clients understand and are willing to pay for. This is particularly true given the growth of cheaper online but less-personalized advice."

The High Value of Advice

The vast majority of advisors report that their fear of losing clients when they switched fee model was unfounded. To reiterate, the reality is they were able to retain 90 percent of all clients upon switching to an AUM model. Even though more than half (61 percent) of advisor respondents have not made a change to their fee structure in more than five years, those who have made changes to their fee model have shifted from commission-based to an AUM model (34 percent), and/or added planning fees to an AUM model (30 percent); or, moved from an AUM fee to a combination AUM fee plus an ongoing retainer (12 percent). Interestingly, two-thirds have never changed their fee structure at all. Responses were similar for one- and two-person offices as well as for firms with 20-plus employees.

Furthermore, investors were asked what they would do if they felt they were paying too much for advisory fees, and the majority said they would stay with their advisor regardless. Among the mass affluent, nearly 30 percent indicate they would ask their advisor for a reduction in fees, and if granted, they would stay. Twenty-seven percent would ask their advisor for a reduction in fees and would stay even if they said no, while 22 percent would not say or do anything and would stay with their advisor. The responses from high-net-worth investors do not skew from this trend.

Among high-net-worth investors, 27 percent would ask their advisor for a reduction in fees, and if granted, would stay. More than a quarter would stay even if their advisor declined to reduce fees. Meanwhile, 16 percent said they would ask for a fee reduction and would leave if the answer was no, a clear distinction from the mass affluent who are more likely to stay even if they are denied. Penta-millionaires appear to be shrewder with their negotiations around fees, with 30 percent of respondents who would leave if the fees were not reduced. However, 28 percent of these respondents would not say or do anything and would stay with their advisor, which is in line with other investors.

Anderson commented, "The decoupling of investment advice and portfolio management is underway. And while it's challenging the venerable AUM model, our research confirms that it is unlikely to change any time soon. The time has come for our industry to adopt a universal advice-based model built on a foundation of professional advice, trust and integrity, and pricing models that equate to the value investors understand and are willing to pay."

Methodology

The financial advisor survey was conducted online in August 2015, generating responses from 775 advisors. For the investor survey, SEI partnered with Phoenix Marketing International to conduct an online survey in April 2015, generating responses from 539 U.S. affluent households. Mass affluent is defined as those with $250K-$999K in investable assets; high net worth consists of those with $1 million or more in investable assets; and, penta-millionaires are those with $5 million+ in investable assets.

To view the full whitepaper, please visit: here.
To view an infographic highlighting key research results, please visit: here.

About The SEI Advisor Network
The SEI Advisor Network provides financial advisors with turnkey wealth management services through outsourced investment strategies, administration and technology platforms, and practice management programs. It is through these services that SEI helps advisors save time, grow revenues, and differentiate themselves in the market. With a history of financial strength, stability, and transparency, the SEI Advisor Network has been serving the independent financial advisor market for more than 20 years, has over 7,000 advisors who work with SEI, and $51.0 billion in advisors' assets under management (as of December 31, 2015). The SEI Advisor Network is a strategic business unit of SEI. For more information, visit seic.com/advisors.

About SEI
SEI (NASDAQ: SEIC) is a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of December 31, 2015, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $670 billion in mutual fund and pooled or separately managed assets, including $262 billion in assets under management and $408 billion in client assets under administration. For more information, visit seic.com.

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