Why your financial adviser may decide to charge you more money

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Expect clear communication and a solid rationale for a fee hike

By

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If you want to render a quick verdict on how financial advisers run their practice, ask a simple question: How did you arrive at your fees?

Those who adopt an entrepreneurial mindset will discuss how their pricing reflects their brand identity, value, and service. Others may wing it.

When Adam Cmejla launched his firm in 2011, he took a reactive approach to setting his fees. They lacked consistency and wavered by the day.

“I based my fee on what someone could afford to pay,” said Cmejla, a certified financial planner in Carmel, Ind. “I didn’t have a standard fee schedule. I didn’t have a sustainable, repeatable plan to grow the practice and I hadn’t figured out yet that my fee needed to be in relationship to the value I delivered and the financial metrics I needed to sustain and grow my business.”

Nevertheless, his firm grew. But that wasn’t necessarily good news. “I had to work more and more just to maintain my business,” he said. “I don’t think I realized the problem until the volume brought it to the surface.”

By 2017, Cmejla was struggling to find the time to devote to newcomers paying him $7,000 or more a year for comprehensive financial planning because he was near capacity servicing legacy clients paying as little as $600 a year. Conferring with his business coach, Cmejla knew he needed to rethink his strategy.

Over the next year, he began raising fees across-the-board. With an average fee increase of 100% — and in some instances as much as 400% — Cmejla knew that the process would prove rocky. For certain clients, he engineered what he calls “a mutual parting” where he urged them to move on and secure a lower-cost option to fit their modest needs. He views these cases as win-win outcomes, because he saved them money while reconfiguring his book of business to better fit his strategic growth objectives.

“Maybe they were paying me $800 a year and they were in a stable period in their life where they didn’t need as much planning,” he said.

Cmejla informed clients of the new fees during his regularly scheduled review meetings that took place in 2018. At first, he felt nervous broaching the subject.

“You have to have the courage in that first conversation you have with clients,” he said. “By having that first conversation and second and third conversation, you gain confidence.”

His coach correctly predicted that most clients would stick with him despite the higher fees. Out of more than 50 households, only two balked at the fee increase and parted ways.

Cmejla concludes that many clients accepted the new pricing partly because of the “relationship equity” he had built with them and partly due to the hassle of shopping for a new planner.

“Changing advisers is a lot of work,” he said. “We’ve already done all the heavy lifting,” he adds, so clients may decide to stick with the person they know and like who has developed their financial plan and helped them implement it.

For advisers weighing whether to raise their fees, Cmejla offers a few pointers. First, beware of breaking the news in a letter to clients. You risk alienating people if you inform them en masse that you will raise your price by a certain date unless you hear from them.

It’s better to deliver the news face-to-face — and to lay the groundwork with care. In the printed agenda that Cmejla sent to clients before their review meeting, he included “Financial planning fee discussion” to give them a heads-up.

Finally, provide context when explaining your rationale for the fee increase. Present it as an outgrowth of changes in your business.

“As you know, we’ve always engaged in comprehensive financial planning,” Cmejla told clients. “Your fee has ranged from X to Y over the years. I’ve had to make some tough decisions in terms of the sustainability of my practice. Part of that is raising fees. In your case, it’s now going to be Z. I know this is a big increase.”

The transition went well for Cmejla. He now works with about 105 households and oversees roughly $45 million in assets. He reports revenue growth of almost 80% over the past year as his new pricing took effect, with a significant portion of that revenue jump due to the fee increase.