

Weekend Reading for Financial Planners

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What's Your True Net Payout?

(Chuck Failla | InvestmentNews)

Advisors who are affiliated with Independent Broker-Dealer (IBD) firms are typically paid based on a stated percentage (sometimes as high as 85%-90%, on a graduated 'grid' schedule) of the gross revenue they generate. This 'headline' percentage represents the advisor's pay after deducting the portion of their revenue that the IBD keeps for being affiliated with the IBD (and the compliance oversight, practice management support, and technology solutions it provides), but there are other costs not included in that headline percentage (e.g., platform fees, technology fees, and E&O insurance) that can mean the amount that actually ends up in the advisor's bank account may be significantly lower. To understand the percentage of gross revenue that they actually get to keep, Failla suggests that IBD-affiliated advisors can calculate and track their "True Net Payout" (TNP) percentage.

On its face, TNP is a simple calculation: Total dollar amount deposited into the advisor's bank account, divided by total fees that were ultimately charged directly to the client. As while it is easy to see how expenses charged to the advisor result in a lower TNP by reducing their total take-home pay (the numerator in the equation), fees charged to clients by the IBD firm also reduce TNP by increasing the client's total fees paid (the equation's denominator) – but because these

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