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# Fee-based planning is on the rise

[ELLEN ROSEMAN](#)

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Janet Freedman is a financial planner who sells no products. All she sells is advice.

Suppose you need help with retirement planning. You want to know how much of an income your investments will generate once you're depending on them to live.

Freedman will crunch the numbers and give you a written retirement plan for \$1,200 (which includes follow-up for the next 12 months).

If you want a full financial plan, the cost is \$1,500 or more, depending on the time involved.

"My hourly rate is \$150. That's on the low side," she says. "But I don't have the overhead, such as a big office and support staff."

She started her home-based business, Freedom Financial Planning in Toronto, in 1984. She has two designations (certified financial planner and registered financial planner).

Even so, she finds it tough to survive as a fee-only planner, without a steady income from product commissions.

"The only way you can make a living doing what I'm doing is to prepare tax returns as well," she says. "Not everyone wants to do that."

Warren Baldwin, another fee-only planner, charges \$2,000 for a retirement plan and \$5,000 for a full financial plan.

He works with TE Financial Consultants Ltd. in Toronto, a firm that employs about 35 financial planners across Canada.

Unlike Freedman, whose clients are ordinary middle-income Canadians, Baldwin's firm

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targets corporate executives and clients with investment portfolios of \$200,000 or more.

If clients need help managing their investments, he refers them to an affiliate, TE Investment Counsel Inc.

"I'm the relationship manager," he says. "I develop an investment policy statement for clients and make sure it's implemented properly."

What's in it for him? Does he charge a fee for acting as an investment intermediary? "I get a share of the revenue generated by the relationship," he says.

TE Investment Counsel charges 1 per cent a year for the first \$500,000 under management and 0.5 per cent for the next \$1.5 million.

Clients understand what they're paying for, he says about his compensation from the investment counselling work. Everything is disclosed.

So, what exactly is a fee-only planner?

The National Association of Personal Financial Advisors, a U.S. group, defines a fee-only planner this way: "One who, in all circumstances, is compensated solely by the client."

Neither the adviser nor any related party should receive compensation that is contingent on the purchase or sale of a financial product.

"A financial planner who has a financial stake in the course of action that he or she recommends to a client faces an inherent conflict of interest and cannot be considered objective or unbiased," says the 900-member group (<http://www.napfa.org>).

"This is true even if the planner truly believes that he or she has only the best interests of the client at heart."

When an adviser's income depends on steering clients to a restricted number of products, there's a limiting of choices that can hurt the quality of investment advice.

"Many of their clients are not aware of their advisers' dependence on selling products, or do not recognize its significance," NAPFA points out.

In Canada, a fee-only planner isn't defined in law. And it's hard to know how many advisers operate that way. About 10 per cent of the 16,000 certified financial planners in Canada call themselves fee-only planners.

But this is meaningless without any strict rules or policing.

Ryan Lamontagne Inc. in Ottawa calls itself a professional fee-for-service financial planning firm, offering tax services and investment counselling.

But it also sells products, such as mutual funds. And while clients pay no up-front or deferred sales charges, the firm earns ongoing commissions (called trailer fees) paid by fund managers.

"We disclose the trailer fees in our letter of engagement," says partner Marc Lamontagne.

In his view, Canadians don't want just a financial plan. They also want someone to help put the plan into action.

"If you do a financial plan for a fee, the client usually doesn't come back," Lamontagne says.

"With product sales, you keep clients on an ongoing basis."

There's no such thing as no-load life insurance in Canada, he points out (as there is with mutual funds). This means advisers who sell life insurance always earn commissions from life insurance companies.

Charging fees gets rid of some conflicts of interest, but it introduces others.

For example, fee-paid advisers may have an incentive to pad their hours or do as little as possible on the client's behalf.

"You may make some changes just so your clients think you're active," he says.

In a self-published book, *To Fee or Not to Fee* (\$29.95), Lamontagne lays out the pros and cons of designing and moving into a fee-based financial advisory practice.

He offers the first chapter in full at his website, <http://www.tofeornottofee.com>.

"Accounting and law firms don't sell products," he tells financial advisers. "They sell only services and they sometimes charge big bucks for those services. "But they aren't necessarily any smarter than you are."

What if clients ask about conflicts of interest?

"There's actually less of a conflict of interest under the new system," he says.

Charging for a financial plan takes away any pressure to sell people anything, in his view. This lets advisers concentrate on doing the best possible job.

Clients are free to implement the plan anywhere they want. But if the adviser implements the plan, he or she will earn commissions for implementation and ongoing monitoring.

Lamontagne says advisers who charge fees are seen as more professional.

"You're sitting on the same side of the table as the client," he says. "You become the client advocate."

Advisers have an incentive to make the money grow if they charge fees based on managing a client's investments. Likewise, if the investments go down in value, the adviser's compensation shrinks as well.

Fee-based financial planning is the trend of the future, he says, especially in the United States.

In Canada, it's happening too, but at a slow pace. That may be because of the transition costs of going into a fee-based practice.

"Advisers are afraid," Lamontagne says. "Those commissions can be addictive."

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*Ellen Roseman's column appears Wednesday, Saturday and Sunday. You can reach her by writing Business c/o Toronto Star, 1 Yonge St., Toronto M5E 1E6; by phone at 416-945-8687; by fax at 416-865-3630; or at [eroseman@thestar.ca](mailto:eroseman@thestar.ca) by email.*

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