



To Fee or Not to Fee

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Platform Choice: New Fee-Based Accounts Make It Easier for MFDA-licenced Advisors To Transition to Fees

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If you've ever considered transitioning to the fee model, and most surveys suggest you already have or will in the future, you quickly see the three major obstacles to your success:

1. The psychological fear that your clients will balk at paying a fee;
2. Concern that your income will drastically decline in the early years;
3. Structural issues such as the services to charge for and how to collect your fees.

The first two issues will be explored in subsequent articles. The last point, specifically how to collect your fees, needs to be established early on in the transition planning process.

Historically, fee-only advisors relied on invoicing as their primary means of collecting fees. Although invoicing works well for one-off financial plans and annual flat-fee services, it can be time consuming if you are using a basis-point fee. As well, there are a number of administrative issues with invoicing that you probably don't want to face. And, some MFDA firms restrict this practice because of the perceived administration and compliance issues. Then they struggle with how to collect an override on fees.

The easiest and most favored method of collecting fees is by using a fee-based account. The advisor sets the fee based on the platform provider's criteria and they do the fee collection for you. The fee is typically deducted from the client's assets and the payment is remitted to your dealer. It is just like receiving another trailer fee.

IDA firms were quick to realize the benefits of fee-based pricing for their bottom line, so they have had fee-based platforms available for years. MFDA firms, on the other hand, have been very slow with their introduction. This lack of access to a fee-based platform needs to be overcome if an advisor is serious about introducing a fee-based service to his or her clients.

The substitute for this lack of access to a platform has always been a wrap account. Even though wraps are becoming less restrictive, they still lack the customization and flexibility that come with a fee-based account.

Recently though, there have been significant developments in the industry that make a fee-based platform easier to access. First, some MFDA firms now offer their advisors a fee-based platform. Manulife Securities introduced a fee-based account in 2004.

The second big development is the introduction of fee-based platforms by intermediary trust companies. MRS Trust now offers a fee-based account at a cost of 25 basis points (minimum \$125) up to a maximum of \$300 per year.

Mark Zochowski, Sales and Business Development Executive at MRS, says the real benefit is how the platform fee is handled. “The advisor chooses his or her basis-point fee from a minimum of 25 up to a maximum of 150, and we simply deduct our fee from that. The advantage is that the client only sees a single fee.”

The other company in the market is Canadian Western Trust (CWT). They charge a flat \$200 platform fee that is deducted from the client’s account once a year just like a trustee fee, though the advisor always has the option of paying it. The big advantage of the CWT fee-based account is the flexibility. Advisors can charge straight basis-point fees, a tiered fee, or a flat annual fee. You can also build in a minimum as well as a maximum fee.

“We wanted to build a platform where advisors control their pricing, not us,” says Scott Scobie, Managing Director, Sales & Marketing at CWT.

The other option for access to a fee-based account is to have a referral agreement with an Investment Counsellor Portfolio Manager (ICPM). Though still a niche, I was surprised by the number of companies offering this service to MFDA licenced advisors.

Research conducted by Cerulli Associates in 2002 suggested that clients valued the review and ongoing service that they received from a financial advisor far more than the fund selection that went on behind the scenes. At the end of the day, clients want to achieve their financial goals. They want to be educated enough along the way to give them peace of mind, and they do not want to be blinded with science¹. Although you may enjoy the time doing investment research or reaching a decision to add or discard a manager, clients actually see little value in these technical endeavors. So a referral to an ICPM has the double benefit of accessing a fee-based platform as well as outsourcing the investment management function.

¹ Value is in the eye of the beholder, *FT Advisor*, November 2004

R. N. Croft Financial Group Inc. is one example of the better-priced platforms at \$800 a year per household plus transaction charges. The advisor sets a “relationship manager” fee in the form he or she chooses, and the referral fees are paid through the dealer.

“It doesn’t matter how many accounts the household has, it is still the same flat annual fee,” says Richard Croft.

The advisor gains access to discretionary portfolio management and a much larger selection of products such as Exchange Traded Funds. While you can conduct portfolio reviews with your client, the downside is you cannot discuss specific securities for which you are not licenced.

The ICPM platform method of delivering investment management is actually quite similar to the Registered Investment Advisor method in the U.S., which is the most favored registration for fee-only advisors. Getting ICPM registration, however, is quite onerous, so a referral agreement seems to be the simplest solution.

In future articles, I will deal with both the financial and psychological obstacles to a successful transition. These obstacles are real but, as I have shown here, they can be overcome with careful planning.

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