3 Reasons to Hire a Fee-Only Financial Planner

When debating between various financial advisors, consider this: Fee-only planners typically have fewer conflicts of interest, focus on advice and offer flexible payment models.

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Written by Andrea Coombes
Writer

Edited by Kathy Hinson
Lead Assigning Editor

If you're wrestling with a thorny money question or simply hoping to get your finances on track, hiring a financial planner sounds appealing. But searching for one can quickly get confusing.

You want a **financial planner** you can trust and who's able to help with your specific situation — but also someone whose payment structure is easy to understand. That's so you don't get blindsided by a conflict of interest; for example, an advisor recommends an investment that costs you more because he gets a commission on it.

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Focusing on finding a fee-only financial planner or advisor can make it all easier.

What is a fee-only financial planner?

“In the fee-only model, the only person paying the advisor is you,” says Barbara Roper, director of investor protection at the Consumer Federation of America, a nonprofit advocacy group. The advisor gets paid solely by clients instead of receiving commissions or other payments from an employer or product providers. That can help ensure you’re not dealing with “a salesperson masquerading as an advisor,” she says.

Despite the similar-sounding name, fee-based advisors and brokers generally get commissions or other compensation related to selling financial products — in addition to collecting fees from clients. (And how financial pros make money matters. Read more about the **difference between fee-only and fee-based planners**.)

Why choose a fee-only planner?

Fewer conflicts of interest. A fee-only advisor “won’t have an incentive to pitch certain products, because they’re working off of a fee versus getting a commission for promoting this fund or that annuity product,” says Charles Rotblut, vice president of the American Association of Individual Investors, a nonprofit group that aims to educate investors.

While some fee-based advisors might provide “perfectly good service to their customers,” Roper says, “the business model is not designed to support that. They have to work against the grain of the incentives.”

That said, it's impossible to entirely eradicate conflicts. A fee-only planner who charges a certain percentage of your assets under management, for example, might suggest that you not withdraw money from those accounts to pay off your mortgage early.

Still, that conflict "can be clearly disclosed and easily understood," Roper says. "But try explaining the conflicts associated with differential compensation or retroactive, ratcheted payout grids" — payment types associated with the broker-dealer business model.

"Pretty soon, the disclosures are going to run to several pages of incomprehensible jargon that the investor is unlikely to read, let alone understand," she says.

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Advice is the focus. When advisors are paid for advice, rather than selling financial products, they may be willing to spend more time offering it.

"From our experience, 80% of the time we spend with clients, for whom we do comprehensive planning, there's no need for a product or even to discuss a product, only discussions about making good financial choices in life," says Reed C. Fraasa, CFP and founder of Highland Financial Advisors in Wayne, New Jersey. Fraasa's firm switched from fee-based to fee-only in 1998.

Clint Walkner, co-owner of Walkner Condon Financial Advisors in Madison, Wisconsin, says his firm made the switch to fee-only in 2017.

"'I can't receive the commission, so let's find you the best product,'" Walkner says he can now tell clients. "It's really freeing from that perspective. Now, it's even easier to do my job."

Variety of payment choices. Many fee-only advisors charge a percentage of the amount of money they manage for you; some may work only with clients who have about $250,000 or more to invest.

But there are also fee-only advisors who charge by the hour, have a flat fee for a service, or require a retainer. Some even use all of these approaches, choosing the best fee structure for the client.

Be sure to **compare financial advisor costs** and services before choosing one, and ask **these 10 questions** before you hire any advisor. Organizations that can help you search for a fee-only advisor in your area include the National Association of Personal Financial Advisors, XY Planning Network and Garrett Planning Network.

If cost is a concern and you simply need investment guidance, you might be well-served by an online robo-advisor. These computer-based services are "available at a very low fee either with or without occasional access to a human advisor," Roper says.

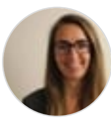
Choose a fiduciary

Whatever payment model your advisor uses, make sure she's a **fiduciary** — that means she must act in your best interests. A nonfiduciary only has to help you in a way that's considered "suitable" for your needs.

Think of it this way, Fraasa says: "You wouldn't expect to go to a Ford dealership and the salesman to say, 'Now that I've gotten to know you, I think a Honda might be a better fit for you.'"

A fiduciary would be required to tell you about the Honda. A nonfiduciary? Not so much.

About the author



Andrea Coombes

Andrea Coombes is a former NerdWallet authority on retirement and investing. Her work has appeared in The Wall Street Journal and MarketWatch.
See full bio.

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