Fee-Only Financial Planner vs. Fee-Based: What's the Difference?

Fee-only financial planners get paid by you directly; fee-based planners may also earn commissions on products they sell. Ask any advisor how they make money.

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A fee-only financial planner sounds strikingly similar to a fee-based financial planner, but there's a big difference in how they get paid.

Fee-only vs. fee-based

Fee-Only Financial Planner	Fee-Based Financial Planner
• Paid directly by clients for their services and can't receive other sources of compensation, such as payments from fund providers • Act as a fiduciary, meaning they are obligated to put their clients' interests first	• Paid by clients but also via other sources, such as commissions from financial products that clients purchase • Brokers and dealers (or registered representatives) are simply required to sell products that are "suitable" for their clients

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What is a fee-only financial planner?

A fee-only financial planner is paid directly by clients for their services, be it a flat fee, hourly rate or a percentage of assets under management. The latter is typically around 1% of a client's portfolio's value each year. Their fee-only pay structure means they do not receive commissions or other payments from the providers of financial products they recommend to clients.

Fee-only financial advisors act as a "**fiduciary**," a term you may hear thrown around; it means they are obligated to put their clients' interests first. Ask if your financial planner is a registered **investment advisor** or a **certified financial planner** — both types are fiduciaries. This is an important consideration when choosing an advisor.

What is a fee-based financial planner?

A fee-based financial planner gets paid by the client but also via other sources, such as commissions from financial products that clients purchase. This can set up a conflict of interest, as the advisor charges you for advice while steering you toward investment interest, as the advisor charges you for advice while steering you toward investment products from which the advisor profits.

Ask if your financial planner is a broker or a dealer, also known as a registered representative. These planners are generally held to a lower legal standard, which simply requires them to sell products that are “suitable” for their clients.

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If your advisor is fee-based, search for the brokerage’s **Form ADV filing** with the U.S. Securities & Exchange Commission. The document includes information that spells out how brokers at the company are compensated. (It's a good practice to check Form ADV before you hire any financial advisor. In addition to explaining fee structure, it lists past misconduct if there is any.)

Fee-only financial planner or fee-based: Which type is best for me?

Financial planners are paid in a variety of ways, but understanding if your advisor is getting payments for steering you toward certain mutual funds or other financial products is important — and raises questions about conflicts of interest. A “suitable” investment for you may not necessarily be the most cost-effective option.

That's why we recommend choosing a fee-only financial planner who follows the fiduciary standard. There are several professional groups that require members to abide by the fiduciary standard. Those include: The National Association of Personal Financial Advisors, Garrett Planning Network, XY Planning Network and the Alliance of Comprehensive Planners.

Cost is another factor to consider. In general, there are three levels of financial advisor rates you'll encounter, depending on the types of services they provide.

Low-cost, investment-only help: **Robo-advisors** are a digital services that provide low-cost **investment management**. You answer questions online, then computer algorithms build an investment portfolio according to your goals and risk tolerance. Robo-advisor fees frequently start at 0.25% of the assets they manage for you, with many top providers charging 0.50% or less. On a $50,000 account balance, 0.25% works out to $125 a year. (Sound right for your needs? See our **top picks for best robo-advisors**.)

Mid-range financial planning and portfolio management: For a bit more than robo-advisors charge but less than you'd pay a traditional financial advisory firm, you can get comprehensive financial planning advice along with investment management. Examples of services in this space are **Facet Weath** and **Empower**.

A basic online service might offer the same automated investment management you'd get from a robo-advisor, plus the ability to consult with a team of financial advisors when you have questions. More comprehensive services roughly mirror traditional financial planners — you'll be matched with a dedicated human financial advisor who will manage your investments and work with you to create a holistic financial plan.

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Higher-end, in-person, traditional financial management: At the high end of the spectrum are **wealth management** firms that provide investing and financial planning services to typically high net worth clients. Like robo-advisors, they tend to charge a percentage of the amount managed. But some require at least $250,000 in investable assets to get started, and the median fee in the industry is a much-higher 1%. Others may charge a flat fee, an hourly rate or a retainer.

About the author

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Kevin Voigt is a former investing writer for NerdWallet. He has covered financial issues for more than 20 years, including for The Wall Street Journal and CNN.com. **See full bio.**

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