Fee-Only vs. Fee-Based Financial Planner: Which Is the Smarter Choice?

Fee-only financial planner fees may be more transparent than their fee-based cousins but still: which financial planner will best suit your needs?

By
Alaina Tweddale

Edited by **Jess Ullrich**

Updated Aug. 7, 2024
Fact checked

No matter your goals — pay off student loans, save for retirement, or boost baby's college fund — it can be a money-smart move to partner with a financial planner. That is, if you can cut through the industry jargon to figure out which type of financial planner can best meet your needs and suit your budget.

The confusing truth is that the financial planner description terms fee-only and fee-based sound an awful lot alike, but surprisingly for many new investors, they're actually quite different. How so? And which should you choose? Let's break it down.

What is a fee-only financial planner?

A primary way fee-only and fee-based planners differ is in how they're paid. Fee-only planners are paid directly by their clients for services including financial advice, the development and implementation of a financial plan, and the ongoing management of assets.

Fee-only planners can be paid in one of the following ways, depending on the advisor you choose:

- As a percentage of assets under management (AUM)
- An hourly rate
- By a flat fee
- On retainer

The key takeaway is that fee-only financial planners are paid only by you, the client. They don't receive any additional fees or commissions that can come with referrals or selling particular products or services. A life insurance broker will likely receive a (sometimes hefty) commission or kickback for selling you a policy from a particular insurance company, for example. The fee-only payment model is transparent, easy-to-understand (you know exactly how much your advisor is paid for services rendered), and objective.

The latter point on objectivity is the natural consequence of the fiduciary standard, to which fee-only planners are held.

What is a fiduciary?

A fiduciary is a person or firm — like a financial institution you've chosen to partner with — that has the power and authority to act on your behalf and must do so in good faith and honesty. A planner that upholds the fiduciary standard must make financial decisions that are in your best interests, even if — or particularly when — your interests conflict with theirs or their firm's interests.

In short, a fiduciary financial advisor avoids any conflicts of interest, like a high-commission life insurance product that may not be the best fit, while seeking best-price financial solutions that can help you meet your individual long-term money goals.

How can I find a fee-only financial planner?

Both the National Association of Personal Financial Advisors (NAPFA) and the XY Planning Network offer easy-to-use fee-only planner finder links online.

What is a fee-based financial planner?

Fee-based financial planners may help investors solve many of the same money problems as their fee-only counterparts. How they're paid, though, is often vastly different, and it's worth taking note of the details.

Similar to fee-only clients, fee-based clients may also pay a fee directly to the planner, either as a flat fee, hourly wage, percentage of AUM, or as a retainer. That's often just the start of the fee-based planner's compensation structure, though.

Fee-based planners may also receive commissions through the sale of certain financial products, such as mutual funds, life insurance policies, or variable annuities. Here's why that's important:

Fee-based financial planners aren't held to that same fiduciary standard as fee-only planners. Instead, they're held to a less stringent guideline known as the suitability standard.

What is the suitability standard?

The suitability standard requires a planner, broker, or insurance agent to make recommendations that are suitable for an investor's needs and situation. That recommendation need not be the best option available, or even the best instrument the financial pro has readily available.

That means a fee-based planner can substitute a life insurance policy with a higher-commission payout, present mutual funds with pricey buy-in fees or load fees, in industry jargon, or offer investments with back-end fees that are paid when you take a distribution from your account.

A fee structure alone doesn't dictate the choices a financial planner may make; great planners come wrapped in many different fee structures. Still, it's worth noting that some fee-based planners may be tempted by a higher payout when a similar yet less expensive solution is available.

Fee-only vs. fee-based financial planner: which is right for you?

It may seem like a fee-only financial planner is always the right choice for every investor, but that isn't the case.

Fee-only planners can be expensive. Your fee is their only compensation, and they often work only with higher-net-worth clients. The minimum asset level will vary by advisor, but many beginner investors may find themselves either priced out or unable to meet fee-only client minimums.

However, fee-based financial planners may be able to help a novice investor develop a first-time financial roadmap, perhaps for a small flat fee, and then suggest commission-paying products that can meet the financial goals discussed. For an early stage investor, this fee structure may be more palatable and even less expensive.

Still, there are other options available for those just getting started with investing money. Robo-advisors like Wealthfront and Betterment offer inexpensive access to handheld, automated portfolio planning tools, low-cost index funds and exchange-traded funds (ETFs), and low or no account minimums. If you're priced out of the fee-only arena or just aren't ready for that level of advice, a robo-advisor may be worth looking into.

What to consider when choosing a financial planner

Type of advice needed

If you're just getting started, investing money may be easiest — and most affordable — with an investing app like Stash or Robinhood, or through a more turnkey yet still easy-to-use robo-advisor like Wealthfront or Betterment.

If you're looking to create a long-term financial plan, for a real-live person to offer you investment advice, or to develop higher-level planning tools like a charitable giving strategy or an estate plan, you may want a fee-only planner.

Available assets

Some fee-only financial planners will work only with higher-net-worth clients, which may leave a fee-based professional as an alternate option. Still, those just starting out who don't have much money to invest can also get started with a low- or no-minimum required investing app or robo-advisor platform.

A fee-based planner may be helpful for investors who fall somewhere in the middle. Even so, many investors who once fit this category can now find easy-to-use yet inexpensive advice through some of the best investment apps.

Personal fit

Make sure you personally jibe with a human advisor, and that their investment philosophy and style align with your own. If you choose an automated option, be sure you're comfortable with the technology and that using it won't act as a barrier to your financial success.

FAQs about choosing a financial planner

It's not always easy to find the right financial advice. These FAQs can act as a guide as you get your journey underway.

What's the difference between a financial planner and a financial advisor?

In broad terms, a financial advisor title acts as a catch-all designation for a professional who offers planning services to help you with your financial life.

A financial planner is a type of financial advisor who helps investors create long-term plans to reach their money goals. Financial planners' specialties typically span the tax, retirement planning, and estate-planning arenas.

In practice, Nearly any financial professional can designate themself as a planner, which means the terms are often used interchangeably. That, of course, makes it trickier to find the best-fit financial planner, so it's wise to review any prospective partner's background, fee structure, and fiduciary responsibilities.

How can I find a financial planner?

You can easily find a fee-only planner who works in your area or conducts business online through either the Financial Planning Association, National Association of Professional Financial Planners (NAPFA), or XY Planning Network. You can also find fee-only and fee-based financial planners through the Certified Financial Planner Board (CFP Board).

What's the difference between a fee-only and a fee-based financial planner?

A fee-only financial planner is paid by client fee only, either as a percentage of assets under management, on an hourly basis, by a flat fee, or on retainer.

A fee-based planner could also receive a fee-based payment, but may also receive commissions from referrals or the sale of financial products like mutual funds, life insurance, or variable annuities.

The bottom line on fee-only vs. fee-based financial planners

There are many ways financial planners get paid, and their fee structure can have a direct effect on investment decisions made on a client's behalf.

Fee-only financial planners are held to a fiduciary standard, which requires them to act in the client's best interest and even put client interests above their own. Fee-based financial planners are held to a less stringent rule: the suitability standard. This latter standard requires an advisor to offer financial options that are merely suitable. A best-fit solution is not a requirement under the suitability rule.

Although they're often considered the gold standard of financial planners, fee-only planners can be expensive and typically require clients to have a higher threshold of investable assets. Fee-based planners often appear less expensive upfront, but there are often additional commissions hidden within their compensation structure, which can eat away at performance over time. An alternate option may be a low-cost, automated robo-advisor, investment app, or online brokerage, which may meet many of the same beginner- and mid-level portfolio building needs as a human financial planner.

[Take the quiz]

AUTHOR DETAILS

Alaina Tweddale

Alaina has been writing for individual investors, financial advisors, and institutional audiences for more than two decades. Her work has appeared on Forbes, MSN Money, Business Insider, Yahoo! Finance, and more.

Best of Investing

7 Best Investment Apps of [February 2025]

Best Robo-Advisors of February 2025

Best Online Brokerage Accounts [2025]

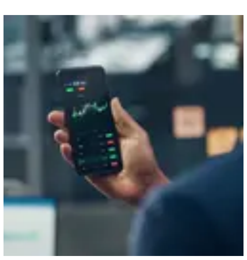
Related Reviews

Robinhood review [2025]: My Experience Using This Commission-Free Trading App

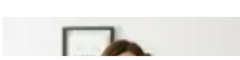
Acorns Review [2025]: Good for First-Time Investors

Public Review [2025]: Commission-Free Trading + Automated Investing

New & Featured Stories



Best Micro-Investing Apps [2025]: Start Growing Wealth with Spare Change



---

111 E. Atlantic Ave., Suite 200 Delray Beach, FL 33444