



CL Whelan and Associates

Extract Only

**Implementing a
Fee-for-Service Model
in a
Financial Planning Practice**

Tips from a leading fee-for-service profession

"Accountants"

About This Extract

The following pages are an extract from "Implementing a Fee-for-Service Model in a Financial Planning Practice". They provide an overview of the type and format of information contained in the manual.

When the manual is purchased, your firm is entitled to distribute a copy of the manual and templates to each employee.

The manual will serve as an excellent training tool for employees and should assist your firm in a smooth transition towards implementing a fee-for-service model.

Regards

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Permission is granted to the financial planning practices that purchased this manual to provide copies of the manual to its employees.

The manual contains 55 pages of information covering all aspects of implementing a fee-for-service model in a financial planning practice.

The Table of Contents lists the areas covered.

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Overview of Manual

Aim of manual

The aim of this manual is to provide a practical guide to assist financial planning professionals implement a fee-for-service model within their practice. The fee-for-service tips and techniques detailed in this manual are based on those employed in accountancy practices. It is recommended that financial planning practices fine tune the fee-for-service model explained in this manual to suit their own situation.

Objectives of manual

After reading this manual, participants will gain knowledge in the areas of

- Advantages and difficulties of a fee-for-service approach
- Transition from commission to a fee-for-service model
- Calculating chargeout rates for their firm
- Preparing a financial forecast under a fee-for-service approach
- Pricing fee-for-service work
- Preparing client engagement letters
- Monitoring actual time taken to complete a job
- Billing and cash collection
- Preparing Key Profitability Indicators to assess the performance of their firm

Extract from page 5

How to use this manual

This manual can be used as an important training tool for the owners and staff within your firm.

We recommend a copy of the manual be provided to owners and staff. All members of your firm should complete the exercises in the manual and then meet to discuss their answers and other concerns and comments.

Implementing a fee-for-service model requires commitment from all levels within your firm. This manual may serve as a first step to generating that commitment.

If your firm has already commenced or is well on the way to implementing a fee-for-service model, this manual should reinforce much of what you have done, provide other information that you may not have considered and fine tune your fee-for-service model. Either way we recommend the manual be read by all members of your firm, the exercises completed and a meeting held to discuss their exercises, concerns and comments.

Continuing Professional Development

This manual has been accredited by the Financial Planning Association of Australia. By reading this manual and completing the 6 exercises, participants will receive 4.0 CPD points towards their continuing professional development.

If you would like to gain 4.0 CPD points, please follow this procedure

Read this manual

Complete the 6 exercises in the CPD spreadsheet template included on the disk at the back of this manual. The exercises are identical to those found throughout the manual.

Email the completed CPD spreadsheet to chris@clwhelan.com.au.

Upon receipt of the CPD spreadsheet, a certificate of completion will be emailed back to you to substantiate the 4.0 CPD points.

Extract from page 6

About the author

Chris Whelan is a chartered accountant and the principal of CL Whelan and Associates. Chris has worked in accounting practices for over 20 years where in addition to his client work, he has managed the internal finances and administration of those practices. Currently Chris has his own consultancy practice where he is recognised as one of the leading consultants in Adelaide specialising in cost accounting.

Chris holds regular workshops on costing and pricing for service businesses where he outlines the fee-for-service model. Chris is acknowledged as a truly talented presenter with his sense of humor and live case studies.

Chris has a Bachelor of Arts in Accountancy and a Graduate Diploma in Accountancy both from the University of South Australia. He is a fellow of CPA Australia and a member of the Institute of Chartered Accountants.

Other manuals prepared by Chris include:

- Accurate Costing for Profitable Pricing for Manufacturers
- Accurate Costing for Profitable Pricing for Service Providers
- Accurate Costing for Profitable Pricing for Restaurants, Cafes and Caterers
- Accurate Costing for Profitable Pricing using Contribution Margin
- Management By Numbers
- Budgets for Better Business

Extract from page 7

There are exercises throughout the manual to promote discussion.

Advantages of implementing a fee-for-service model

- The advice is seen by clients to be independent and free from bias. By separating the advisors fee from investment recommendations, the risk of conflict of interest is significantly reduced. The advisor will generally receive the same fee regardless of the investment recommended.
- Clients are likely to attach more importance to advice they have to pay for.
- Clients control the fee payable to the advisor. They can choose to pay more or less depending on the level of service required.
- A fee-for-service approach generates a fee that matches the skills of the financial planner, degree of complexity of the advice and time taken to provide the advice.
- Some financial planners have found revenues significantly increase under a fee-for-service model.
- Compliance with ASP 12 for CPA and ICAA members who are financial planners.
- The ability to use the words "independent", "impartial" or "unbiased" to describe your financial planning services if your business meets the requirements of section 923A of the Corporations Act 2001 which includes a fee-for-service approach to receiving remuneration.
- Those financial planning practices that have implemented a fee-for-service model will not be affected if product providers reduce or remove their commission structure or if the government legislates for this to occur.

Exercise 1: List other advantages



Extract from page 9

The manual is divided into sections that discuss a topic in detail.



Transition from Commission to Fee-for-Service

The transition from commission to fee-for-service requires careful planning, training and patience. Properly implemented, a fee-for-service approach should deliver all the advantages discussed above and mitigate many of the above difficulties that may be experienced. There are many financial planners who have already made the transition and their feedback is positive.

The following is a check list of matters to consider when planning a transition to fee-for-service. The list is not exhaustive and you should add other items that may specifically apply to your firm or situation. The purpose of the check list is to draw your attention to key points rather than cover each matter in detail.

Factors that compel a successful transition

There are four key factors that are required for a successful transition to a fee-for-service model

1. The owners (or top managers in the case of a large organisation) must be committed to a fee-for-service model for their firm
2. The benefits are worth the effort
3. The transition must be carefully planned
4. The staff must be fully informed on all aspects of a fee-for-service approach and their concerns answered. This may be achieved through training sessions, meetings and individual counseling.

Extract from page 12

A case study is developed around a hypothetical financial planning firm.
The case study forms the focus of all calculations for chargeout rates, pricing,
monitoring and Key Profitability Indicators

Calculating chargeout rates for your firm

Step 1: Labour costs of employees

Who are your direct employees?

Direct employees are those people who are directly involved in selling their time for a fee. Those people who perform a managerial, administrative or marketing function and do not charge for their service are not classified as direct employees. Employees involved in generating non-financial planning commissions such as insurance commissions are not classified as direct employees.

Employees include full time, part time or casual staff and agency or contract personnel (the last 2 are employees for costing purposes only).

The labour costs of employees include the following:

- Gross Salary
- Superannuation
- Workcover
- Other allowances such as motor vehicle allowance, commissions and bonuses

Throughout the remaining sections of this manual, we will discuss a case study based on a hypothetical firm known as Ascot Financial Planners.

Extract from page 19

Ascot Financial Planners

Labour Costs of Employees for the next 12 months

	Rebecca	Joe	Julie	Darren	Sally	Total
Labour Costs	\$	\$	\$	\$		\$
Salaries	55,000	65,000	42,800	100,000	39,500	302,300
Superannuation 9.0%	4,950	5,850	3,852	9,000	3,555	27,207
Workers compensation 0.459%	275	325	214	500	198	1,512
Other allowances						
Total Labour Cost	60,225	71,175	46,866	109,500	43,253	331,019
Direct Labour %	100%	75%	100%	50%	0%	
Direct Labour Cost	60,225	53,381	46,866	54,750	0	215,222
Overhead Labour Cost	0	17,794	0	54,750	43,253	115,797

Darren is the owner of this small firm of financial planners. He spends 50% of his time on client work and the other 50% on administrative and marketing activities. Darren works 50 hours per week.

Rebecca is a para-planner and Joe is a financial planner. Rebecca works full time on client work however Joe allocates his time between financial planning clients (75%) and insurance clients (25%). Therefore 75% of Joe's costs are classified as direct and 25% overhead costs. They both work 40 hours per week.

Julie is a senior financial planner and works part time for 20 hours per week. Sally is the receptionist for Ascot Financial Planners and does not spend any time directly on client work.

Market value of labour costs

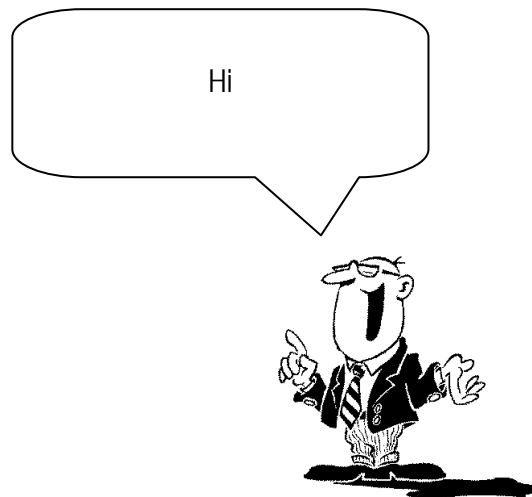
All labour costs should be included in the above table at market value. This particularly applies to the owners of the financial planning firm who may pay themselves a salary package (including superannuation) below or above an equivalent market value. To determine the market salary package of an owner, consider how much your firm would have to pay to employ a senior financial planner and increase it by 20%.

Remuneration received by owners above a market rate is considered a share of the profit and should be included in the Required Net Profit estimate discussed later in the manual.

We are not suggesting that owners change their current remuneration amount. Our point is for costing purposes, a market value should be included in labour costs for owners and any excess over market value should be included in Required Net Profit.

Extract from page 20

Albert will appear throughout the manual to give commentary when needed.



Step 6: Check for reasonableness

Check for reasonableness by comparing with other chargeout rates


The chargeout rates calculated above must be checked for reasonableness by comparing with:

- Rates of competitors (if known)
- Industry standards
- Existing chargeout rates
- What you perceive the market (clients) will pay.

The table below shows a comparison of the hourly chargeout rates for Ascot Financial Planners compared to what you believe the market will pay.

Check for Reasonableness	Ascot Financial Planners			
	Rebecca	Joe	Julie	Darren
Hourly Chargeout Rates	\$93.00	\$110.00	\$180.00	\$230.00
Market Chargeout Rates	\$95.00	\$115.00	\$150.00	\$185.00

Darren and Julie's chargeout rate appears to be much higher than their market rate.



Check for reasonableness by pricing services

Another check for reasonableness is to price various standard financial planning services using the above chargeout rates for your firm and compare the prices to

- What your firm may have received under a commission based remuneration for that service
- What competitors are charging for those services (if known)
- What you believe the market will pay for each of the various services

Extract from page 26

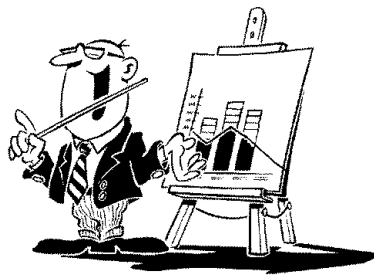
The pricing template provided on the CD is explained in detail.

Pricing matrix

After setting fixed fees for clients for a range of services, your firm may be able to prepare a pricing matrix. This matrix is an estimate of fees for various services for various size investments. The pricing matrix is useful to provide clients with an indication of initial and ongoing fees for various levels of service. It overcomes the time consuming task of pricing every job for every client.

A word of warning however about using a pricing matrix – it is only as accurate as the last time it was updated. The pricing matrix should be reviewed on a 6 monthly basis to ensure it is based on current chargeout rates and the standard hours required to complete each service are still accurate. Any new service provided to clients may be included in the pricing matrix as well as deleting any discontinued service.

Every hour worked on a job but not billed to a client because it is above their fixed fee is lost profit.



Pricing a service using the template provided

When setting fixed fees, it is important to prepare an estimate of fees using a pricing template. The template will allow you to monitor the progress of the fixed fee service against the estimate. This method will minimise the chance of an overrun of hours against the job. The greatest problem facing a financial planning firm using a fee-for-service approach is spending too long on a job and not recovering the hours, resulting in high write offs.

At the back of this manual is a CD containing a pricing and monitoring template (excel spreadsheet).

The following section explains how to use this template.

Extract from page 33

Step 1: Select team

The employees selected to work on the job is an important consideration. The employees should be selected on ability to complete the tasks and chargeout rates to ensure efficiencies. For example, selecting only senior financial planners to do the work will result in a high fee payable by the client. Instead, are there some tasks a junior financial planner could do at a lower chargeout rate?

Ascot Financial Planners

Job	Wealth Creation Plan
Client	Mr John M Weatheral
Date	05-July-2010

Chargeout Rates		
Description	Rate	Last Updated
Partner	\$ 185.00	1/07/2010
Senior Financial Planner	\$ 150.00	1/07/2010
Para-planner	\$ 95.00	1/07/2010

Partner = Darren
 Senior = Julie
 Para-planner = Rebecca

Extract from page 34

Step 4: Value pricing

Value pricing is pricing your service according to the value perceived by the client. Value pricing incorporates many aspects including the degree of complexity and level of expertise and responsibility required and any risk associated with providing the advice. Each of these matters may allow you to charge a much higher fee than would be calculated based on the hours taken to complete the service. The pricing template has a field that allows you to include an amount for value pricing.

Ascot Financial Planners
Wealth Creation Plan
Mr John M Weatheral
05-July-2010

Market Value Adjustment should only be used if required to increase or decrease the price of the job to an amount that you believe the client will pay.

Summary of Price	Amount \$
Time Charge	\$ 5,412.50
Disbursement/Material Charge	\$ 165.00
Subtotal	\$ 5,577.50
Market Value Adjustment (optional)	\$ 922.50
Total Price	\$ 6,500.00 <i>plus GST</i>

Extract from page 34

The manual covers challenging issues for a financial planning practice implementing a fee-for-service model.



Recording and Monitoring Time

There is a saying that applies to every business in every industry sector:-

“If you can’t measure it, you can’t manage it”

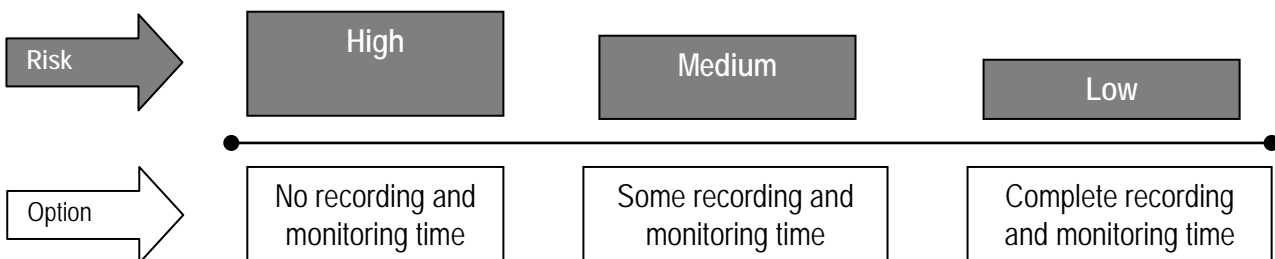
This means if you don’t have information to measure the performance of your business, there is no way of managing your business properly. The same is true for each job. If you can’t measure the hours taken to complete each job, there is no way of managing the job or knowing if it is profitable.

In other words, the profitability of your financial planning business, when adopting a fee-for-service approach, is dependent on completing the job within the time allocated in the fixed fee.

Recording and monitoring time is the most challenging part of implementing a fee-for-service approach. This is the area that you are likely to get the most resistance from staff and owners/senior managers because it requires the recording of time.

Options for recording and monitoring time

There are 3 options for implementing a recording and monitoring time system. Each option has a level of risk associated with adversely affecting the profit of each job and the overall profitability of the firm. They are depicted in the following diagram.



Extract from page 43

The manual concludes with an overview of Key Profitability Indicators for a financial planning practice under a fee-for-service model.



Key Profitability Indicators

Key Profitability Indicators are an effective way of managing your business. As the title implies, they measure the key areas of your business' performance.

If you can measure and manage these key areas, then your business will prosper.

All of the following key profitability indicators can be used to assess the performance of the firm from one period to the next and to benchmark performance with other financial planning firms or other professional service firms like accountancy practices.

Revenue per FTE

- Annualised fees (excluding disbursements) divided by the number of full time equivalent (FTE) personnel including partners/owners.
- Indicates if staff numbers are at the correct level
- Revenue per FTE should range between \$100,000 to \$125,000

Revenue per FTE for Ascot Financial Planners for the next 12 months

- Estimated Fees from financial planning and insurance (excluding disbursements) for the next 12 months = \$545,699
- FTEs = 4.5
- Revenue per FTE = \$121,266

Extract from page 51