HOW TO REDUCE COSTS THAT DRAIN RETIREMENT SAVINGS

NAPFA
THE NATIONAL ASSOCIATION OF PERSONAL FINANCIAL ADVISORS

TIPS:

01

Understand the different compensation methods of financial advisors

Financial advisors should be transparent about how they're paid. Three basic types of compensation methods include:

Fee-Only: A Fee-Only financial advisor charges the client directly for advice and does not receive commissions on actions taken on a client's behalf. Compensation is based on an hourly rate, a percent of assets managed, a flat fee or a retainer. All NAPFA members are Fee-Only financial advisors and fiduciaries, working in the clients' best interests.

Commission and Fee (Fee-based): Commission and Fee advisors charge clients a fee for the advice delivered, but they can also receive payments for products they sell or recommend. Any outside compensation from commissions lessens the advisor's ability to keep the clients' best interests first and foremost.

Commission Only: An advisor who is compensated through commissions only makes money if a client buys a product the advisor is able to sell. Commission-based advisors may receive higher commissions on some products than on others, which may influence their decision to recommend investment products that are not in a client's best interest.

02

Be aware of common product fees

Make sure you understand the product fees you're paying, especially fees that will kick in if you decide to sell or make changes to your portfolio.

12b(1) Fee: An annual marketing or distribution fee associated with mutual funds.

Surrender Charge: An amount deducted from the balance in your annuity policy or insurance contract if the policy is cashed in or surrendered early.

Back-End Fee: An amount deducted from the balance in your investment if the investment is sold early. Often associated with selling mutual fund shares.

Wrap Fee: A comprehensive charge levied by an investment manager to a client for providing a bundle of services, such as investment advice, investment research or brokerage services.

03

Stay informed

Review confirmation and account statements to be sure you're being charged correctly.

If you're not happy with the **fees you're paying**, shop around.

Monitor your advisor throughout the relationship.

New rules: The Department of Labor's fiduciary rule, portions of which took effect June 9, requires financial professionals to put their clients' interests ahead of their own when providing advice on pre-tax retirement accounts, such as IRAs and 401(k) plans. The rule does not apply to taxable transactional accounts, accounts funded with after-tax dollars, general investment advice, or information on a specific product or investment.

Resources:

Finding an Advisor:

NAPFA's Find an Advisor tool

SEC's Investment Adviser Public Disclosure

Understanding Compensation and Fees

NAPFA's Tough Questions to Ask Your Advisor

NAPFA's Financial Advisor Checklist

NAPFA's Compensation and Fee Declaration document