



# Envestat Report

May 2017

## Fee Compression: Much Ado About Nothing

Fee compression has been the subject of many a news article, but often it's talked about in very broad terms or with top-line data. So we thought it would be instructive to build on our last [Envestat Report](#) on fee compression by product type to dig deeper and explore where the majority of fee compression was occurring at the account level and type of firm.

In this edition of Envestat, we examined average client and advisor fees over the past three years by account size and distribution channel to answer some key questions:

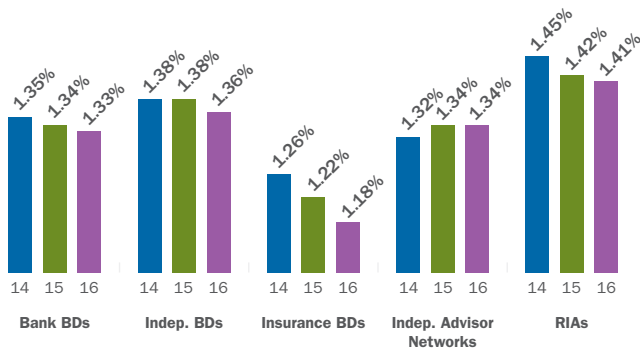
- How significant is the fee compression?
- Does fee compression differ based on the size of the account?
- How are various wealth management distribution channels affected by fee compression?

### Fee Rates by Account Size

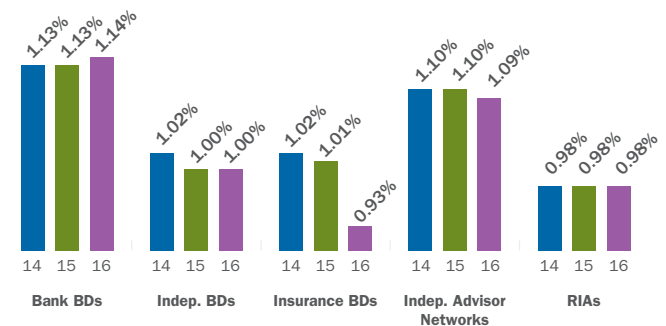
	Client Fee			2016 vs 2014 In basis points	Advisor Fee			2016 vs 2014 In basis points
	2014	2015	2016		2014	2015	2016	
\$100,000 - \$250,000	1.36%	1.35%	1.33%	-3	1.06%	1.09%	1.07%	1
\$250,000 - \$500,000	1.27%	1.26%	1.24%	-3	1.01%	1.03%	1.01%	0
\$500,000 - \$1 million	1.18%	1.16%	1.14%	-4	0.94%	0.96%	0.90%	-4
\$1 - \$2 million	1.07%	1.03%	1.01%	-6	0.85%	0.84%	0.83%	-2
\$2 - \$5 million	0.94%	0.91%	0.90%	-4	0.74%	0.74%	0.72%	-2
> \$5 million	0.82%	0.77%	0.76%	-6	0.63%	0.62%	0.60%	-3



Client Fee Rate Trend by Distribution Channel



Advisor Fee Rate Trend by Distribution Channel



Investnet’s observations:

- While the majority of accounts were under \$500,000, most of the client fee compression occurred in accounts over \$1 million. Despite the smaller opportunity set in this \$1M+ account market, competition is intense, and the crowded market of advice providers to this segment is likely to be a factor in more significant compression among larger accounts.
- Advisors often cite competition as the reason for bringing fees down by significant amounts (10–30 basis points), but our analysis suggests that actual fee compression in the market shows a far more moderate decline in advisor fees. Client fees tended to decline more than advisor fees, but the magnitude of the fee compression was negligible. Client fees dropped by only 3–6 basis points between 2014 and 2016.
- Advisor fees declined by just 2–4 basis points. Interestingly, average advisor fees actually rose 1 bp in the \$100,000–\$250,000 segment. As advisors become more focused on improving margins and client profitability, some are likely realizing that the effort expended on smaller accounts is often the same as on accounts in the \$250K–\$500K range, causing them to raise their asset-based fees on smaller accounts.
- The Insurance channel experienced the largest decline in both client and advisor fees. RIAs had essentially no change in their advisor fees, while their client fees declined just a couple of basis points. Independent broker-dealers had a symmetrical decline in fees: 2 basis points for both client and advisor fees.

While fee compression is a concern for many broker-dealers and advisors, there are ways to mitigate or neutralize this threat. The more advisors can demonstrate the value they provide their clients, the less likely they are to feel pressured to their lower fees.

Our [Capital Sigma research](#) indicates that advisors can add significant alpha for their clients through successful implementation of five key services: financial planning, asset allocation, investment selection, systematic rebalancing and tax management. Incorporating these services can contribute 300 basis points in additional portfolio returns. It’s become more important than ever that advisors not only communicate their value proposition to clients but also actually show all the methods they employ to become their clients’ “essential advisor.”

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