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How is Your Financial Advisor Paid?

Compensation is key to identify potential conflicts of interest.

Since 1983, the National Association of Personal Financial Advisors (NAPFA) has been at the forefront of Fee-Only, fiduciary financial planning. NAPFA and the more than 2,100 affiliated professionals are committed to serving the best interests of clients by avoiding the inherent conflicts of interest that accompany commissions and referral fees.

The debate over the best form of compensation has been a hot button issue for years. With any of the following methods, you want to make sure that the advisor's recommendations are always in your best interest.

The three common models of compensation are:

- **Fee-Only Compensation** – This model minimizes conflicts of interest. It is the required form of compensation for members of NAPFA. A Fee-Only financial advisor only charges for his or her advice and/or ongoing management. No other financial reward is provided by any other institution, which means they do not receive commissions on the actions they take on the clients' behalf. Compensation is based on an hourly rate, a percent of assets managed, a flat fee, or a retainer. In essence, Fee-Only financial advisors sell only one thing - their knowledge.
- **Fee-Based Compensation** – This form is often confused with Fee-Only, but they are distinctly different. Fee-based advisors charge clients a fee for the advice delivered, but they also receive payments from products sold. In some cases commissions are credited towards the fee, giving the appearance of an overall lower priced option, but any outside compensation lessens the advisors ability to keep the client's best interests first and foremost.
- **Commissions** – NAPFA has always maintained that an advisor who is compensated through commissions is primarily a salesperson. A client looking for unbiased advice cannot be sure that the investment being recommended is truly in their best interest or is it the most profitable product for the advisor. Consumers should be wary about engaging an advisor who is compensated solely by commissions. Many may be well intended, but far too many will not have the best interests of the client at heart.

Learn more about working with a financial advisor by visiting the Consumer Information section of the NAPFA website at www.NAPFA.org

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