

What Commissions Do Financial Advisors Earn?

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When [looking for a financial advisor](#), make sure you ask how they're compensated. Some earn a commission as a fee-based advisor, while others might be [fee-only](#). Advisors will also likely charge you a percentage of your investments, as well as fixed and hourly fees for financial planning. When choosing an advisor who works off commissions, there are several factors at play that you should be aware of.

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Understanding Financial Advisor Commissions

While some financial advisors take commissions when their client simply opens an account, others earn them from selling you a specific financial product. In that case, the advisor gets paid by the corporation, such as an insurance company, that issues the product.

There are several forms in which an advisor can receive their commission. These can include upfront sales fees; [loads on mutual funds](#); commissions from [annuities](#) or other insurance products; a surrender charge on an annuity; or trailing commissions, in which the client pays a fee for each year they own an investment.

To protect consumers, there are rules and standards that financial advisors must follow. If an advisor is registered with the SEC or a state regulatory entity, they are likely a [licensed fiduciary](#). In this case, they must, by law, prioritize your interests before their own and avoid any conflicts of interest when recommending products.

Similarly, registered advisors who observe the suitability standard – regulated by the nonprofit Financial Industry Regulatory Authority (FINRA) – are held to a lesser standard. Though they are required to sell financial products that suit a client's needs, those products don't necessarily need to be the very best ones for the client. In other words, as long as an advisor has a "reasonable basis to believe" something is in your best interest, they can sell you whatever product they want, even if they receive a kickback from the company hocking it.

What Are the Sources of Financial Advisor Commissions?



Financial advisors can receive commissions from a range of investment products. These commissions usually come in the form of a percentage of the sale value of the product. Commission-based arrangements are often based on some relationship an

advisor has with a company, which is why they can sometimes cause concerns with [conflicts of interest](#).

Here's a breakdown of some common areas in the financial services industry where you'll run into commissions:

- **Insurance products:** There can be big incentives associated with selling insurance products. Some advisors may see commissions as high as 70% of the first year's [premium](#). After that, they may receive an additional 3% to 5% of the premium per year as long as the policy is active.
- **Mutual funds:** Typically, advisors making commissions on [mutual funds](#) get paid via a trailer fee. This commission can range from 0.25% to 1% of the assets invested in the fund on an annual basis. The advisor may receive this fee as long as the investment remains in the mutual fund.
- **Annuities:** [Annuity commissions](#) are generally built into the price of the contract. Commissions usually range anywhere from 1% to 10% of the entire contract amount, depending on the type of annuity. For example, fixed-indexed annuities generally earn advisors a 4% commission.

The Case Against Commission-Based Advisors

There are a few disadvantages to working with a commission-based financial advisor. For one, there's always the worry that they may recommend you purchase a product because it benefits them financially. For instance, it might not be suitable for your [risk tolerance](#) or [financial goals](#). If your financial advisor relies solely on commissions to make a living, this may put your best interests in jeopardy.

Since these advisors receive a one-time commission for the sale, they may not offer the same long-term attention that you might want for your finances. So unless you're buying a product that doesn't require regular transactions, you may want to find an advisor who's amenable to maintaining an ongoing dialogue with you.

Also of note: Financial advisors who work for investment brokers or insurance agencies are often more concerned with sales. So while they may abide by the suitability or even fiduciary standard, their allegiance may be to their employer's bottom line.

One good thing to remember, though, is that many registered [financial advisors](#) don't receive payment from commissions alone. Beyond that, if an advisor has a [certification or designation](#), they may have an independent fee structure. Additionally, SEC- or state-registered advisors must abide by fiduciary duty, putting your interests above all else in the process.

The Bottom Line



Like any financial decision you make, do your research before deciding on a financial advisor. If you're simply buying a one-time annuity policy from a commission-based advisor, that might be fine with you. But if you're looking for a comprehensive financial advisor service that will be with you for the long-term, a fee-only advisor may be the best way to go.