

How Billing in Arrears Can Help Advisors Get Paid Faster



There are a lot of ways for advisory firms to collect fees from clients but before you can *collect* fees, you must first determine how to *calculate* fees.

Generally, fees can be calculated in arrears (bill for past months) or in advance (bill for future months).

In addition, you have to select a valuation method. The two most common methods are:

- Average Daily Balance (just like it sounds, bill on the average amount in an account over a period of time)
- Period Ending (bill on the amount in an account on the last day of the quarter)

While the choice is often left to individual advisors to make, billing in arrears with Average Daily Balance is typically the best practice for most advisors. Let's review the core benefits of switching to this method and identify compliance and revenue considerations.

Pros and Cons of the Average Daily Balance Billing Method

Pros	Cons
Your calculations will use actual values that reflect the true history of an account, resulting in a more accurate form of billing than other methods.	Should a client cancel services, you'd need to quickly calculate an ending bill before the custodian cuts off your data feed to their accounts. Usually this needs to be completed the same day a client cancels.

<p>If using a tool like Orion, billing account maintenance is almost eliminated because you are billing on past data and there's no need to manually mark cash flows.</p>	<p>If you currently use an Advanced billing method or bill on Period Ending values, switching to Arrears with Average Daily Balance will require a little work upfront. You'll need to file an amended interim Form ADV, as well as communicate the change in billing methods to each of your clients. (Keep reading for tips on how to make this process easy.)</p>
<p>Time spent calculating fees can be drastically reduced. When we compared Orion advisors who use Average Daily Balance methodology versus Period Ending, those using Average Daily Balance generally completed their billing process 4 to 7 days faster.</p>	

Compliance Considerations

Any time you make a fundamental change to your billing methodology, you need to file an amendment to your ADV, communicate the change to each client in your firm, and have them sign off on the new ADV.

This will hold true even if you currently bill in arrears and are only changing from Period Ending to Average Daily Balance.

Filing a new ADV is rather simple, but the more difficult part is knowing how to communicate the change, and its benefits, to your clients.

Here are the points to share with your clients:

- *We're changing our billing method to a process that we feel reflects industry best practices.*
- *Moving to billing in arrears on Average Daily Balance provides a more consistent billing experience, so you aren't impacted by market fluctuations or other money movements, like large distributions or contributions.*
- *If you see different portfolio values on your custodian statement and your advisory fee invoice, there's nothing to worry about. The values are supposed to be different. That's because we're billing you for the average value in your account over the last quarter, so on our invoice you're seeing an average number, not a number as of a single day as your custodian will report.*

Strategies for Making a Change

If you bill quarterly and change from advanced to arrears, you'll have to wait an extra quarter before billing again. That means you're creating a revenue lull of at least three months.

Here are the two most popular ways advisors choose to minimize the impact a billing methodology switch can have on revenue:

- **Method One:** In addition to changing your methodology to arrears with Average Daily Balance, you can also change your billing cycle from quarterly to monthly. With this method, you only miss one month before you start collecting revenue again. The tradeoff is that you then have to calculate fees each month instead of once a quarter.
- **Method Two:** Change only a portion of your book of business to the new billing methodology each quarter until you've converted your entire client list. Most advisors will break up their client list into thirds or fourths to create a minimal reduction in revenue each quarter.

How Orion Makes Billing Simple—No Matter Which Method You Choose

Billing in arrears with Average Daily Balance may be our recommendation for the simplest way to manage your advisory fees, but it's not the only method advisors choose.

No matter which billing methodology your firm adopts, you can be sure that Orion's platform includes the end-to-end billing tools you need to calculate fees accurately and get paid faster.

Here are just a few of the ways Orion supports the unique ways your firm works:

Billing Audit App

Your single location to update all billing information, for every account. Add fee schedules, assign paying accounts, mark assets to be excluded from fees, and more—all in only a few clicks.

Bill Generator App

Get quick snapshots of fees by custodian, fee schedule, advisor reps, and more on a single screen. Plus, calculate fees easily and efficiently so you can spend less time in your software and more time with your clients.

Financial Planning Fees

For advisors who need more flexibility, Orion supports multiple fee types outside the traditional AUM-based fee structure. You can also give your clients the ability to pay fees directly in your Orion client portal.

Contact us today to hear more about how Orion can help you streamline your billing operations.

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