Calculate Your True Hourly Rate After Overhead

When you set an hourly rate for your financial planning practice, the number on your invoice rarely matches what you actually take home. The gap between your billing rate and your effective hourly rate is made up of overhead costs, unpaid administrative work, and the time you spend on tasks that don't directly generate revenue. Understanding your net hourly rate after overhead is essential for making sound pricing decisions, managing capacity, and evaluating whether your practice is truly profitable.

This article walks through the steps to calculate your net hourly rate, with practical notes on what to watch at each stage. The process applies whether you run a solo practice or work with a small team, and it is particularly relevant if you operate under an **Advice-Only Practice Model**, where you do not earn commissions or product fees and rely entirely on client fees for revenue.

Step 1: Determine Your Total Revenue

Start with the total revenue your practice generated over a defined period, typically the past 12 months or a fiscal year. This includes all client fees, retainer payments, project fees, and any other income from your advisory services. If you offer multiple service tiers or packages, include the full amount collected from each.

What to watch: Do not include investment returns, interest, or other passive income that is not tied to your labor. The goal here is to capture only the revenue that results from the hours you and your team work. If you have revenue from non-advisory sources, separate it now to keep the calculation clean.

Step 2: Identify and Total Your Overhead Costs

Overhead includes every expense that keeps your practice running but is not directly billed to a specific client. Common overhead categories for a financial planning practice include office rent or co-working space, software subscriptions (financial planning tools, CRM, portfolio management), professional liability insurance, continuing education, marketing and website costs, accounting and legal fees, and general administrative supplies.

What to watch: Be thorough but avoid double-counting. Some expenses, such as software licenses, might be used across multiple clients but should still be classified as overhead rather than being allocated to a single client. Also, include a reasonable estimate for home office expenses if you work remotely, but keep it factual and based on actual costs rather than arbitrary percentages.

Subtract your total overhead from total revenue to arrive at your net revenue before owner compensation. This figure represents the money left after covering the costs of running the practice itself.

Step 3: Calculate Total Hours Worked

This step is often the most challenging because it requires an honest accounting of all the time you spend on work-related activities. Total hours worked includes not only client-facing meetings and preparation but also follow-up time, client research, report writing, email correspondence, marketing, networking, professional development, and administrative tasks like billing and scheduling.

What to watch: It is easy to underestimate hours when you rely on memory. Keep a time log for at least two to four weeks to get a realistic baseline. If you have a team, track hours for each person separately and then sum them. The goal is to capture every hour that contributes to the practice, not just the hours you bill directly.

Step 4: Compute Your Net Hourly Rate

Divide your net revenue (from Step 2) by the total hours worked (from Step 3). The result is your net hourly rate after overhead, which is your true realized rate per hour of work.

For example, if your net revenue is $120,000 and you worked 2,000 hours, your net hourly rate is $60. If you had billed clients at $150 per hour, the difference of $90 per hour represents the hidden cost of overhead and unpaid time.

What to watch: This number is a snapshot, not a fixed truth. It changes as your client mix, service offerings, and overhead costs evolve. Re-calculate it at least annually, or whenever you make a significant change to your pricing or operations.

Step 5: Analyze the Contribution Margin of Different Activities

Once you have your net hourly rate, you can begin to assess which parts of your practice generate the most value per hour. Calculate the contribution margin for each major service line or client type by comparing the revenue it produces against the time it consumes.

What to watch: Some clients or services may appear profitable on the surface but actually consume a disproportionate amount of follow-up time or client preparation. A high-profile client who requires extensive research and frequent communication might have a lower effective hourly rate than a smaller, more standardized engagement. Similarly, a retainer client who pays a flat monthly fee might become unprofitable if the time required exceeds the fee.

This analysis helps you decide where to focus your energy and whether to adjust pricing, drop certain services, or improve efficiency in specific areas.

Step 6: Use the Rate to Inform Pricing and Capacity Decisions

Your net hourly rate is a practical benchmark for setting new client fees, evaluating whether to take on additional work, and assessing the need for hiring or outsourcing. If your net hourly rate is lower than what you could earn by subcontracting certain tasks or using a paraplanner, it may be more profitable to delegate.

What to watch: Do not confuse the net hourly rate with your billing rate. The net rate is an internal metric, not something you share with clients. It helps you decide whether a particular engagement is worth the time, but your pricing should still reflect the value you deliver to the client, not just your cost structure.

For advisors working under an Advice-Only Practice Model, where every dollar of revenue comes from fees rather than product sales, understanding your net hourly rate is especially important. Without commission or trail income to buffer overhead, every hour must justify itself through direct client value. This model rewards efficiency and intentional time management because there are no hidden revenue streams to compensate for inefficiency.

Common Pitfalls to Avoid

One frequent mistake is excluding owner compensation from overhead. Your own salary or draws are not overhead; they are the profit you take from the practice. Overhead should only include costs that are necessary to run the business, not your personal income. If you include owner compensation, you will artificially lower your net hourly rate and misjudge your practice's profitability.

Another pitfall is failing to account for unpaid administrative time. Many advisors spend hours each week on scheduling, billing, compliance paperwork, and marketing that never appear on a timesheet. If you omit these hours, your net hourly rate will appear higher than it actually is, leading to overconfidence in your pricing.

Finally, watch for seasonal variation. A practice that is busy during tax season or year-end planning may show a high net hourly rate for those months but a much lower rate averaged over the full year. Use a full-year period to get a reliable picture.

Refining the Calculation Over Time

The first time you calculate your net hourly rate, the number may be surprising. That is normal. The value of the exercise is not the number itself but the insight it gives into where your time

and money go. Use the result to identify the biggest drains on your effective hourly rate and address them one at a time.

For example, if overhead is high relative to revenue, look for ways to reduce fixed costs or increase revenue per client. If total hours worked is the main driver of a low net rate, focus on improving efficiency, streamlining client preparation, and reducing follow-up time. If certain clients consistently produce a low contribution margin, consider whether they are worth retaining or whether a fee increase is justified.

Over time, tracking your net hourly rate across multiple years reveals trends. A rising rate suggests that your practice is becoming more efficient or that you are successfully moving toward higher-value work. A falling rate may signal that overhead is growing faster than revenue or that you are taking on too many low-margin engagements.

Calculating your net hourly rate after overhead is not a one-time exercise. It is a discipline that keeps your financial planning practice grounded in reality and helps you make decisions based on data rather than intuition. When you know your true realized rate, you can price with confidence, manage your capacity more effectively, and build a practice that is both profitable and sustainable.