ThinkAdvisor

Morgan Stanley's New Advisor Retirement Plan: A Breakdown

The wirehouse is tinkering with its compensation program so more elite advisors will stay with the firm and find successors within.

By Janet Levaux | October 19, 2018

Morgan Stanley is pushing to entice more retiring advisors to pass along their practices to younger advisors with the firm.

In a memo shared with its 15,655 advisors earlier this week, the wirehouse said it is increasing the bonus to a select group of top advisors by 10% to 50% of their trailing 12-month fees and commissions in 2019. For the bump-up, advisors must sign an agreement that they will give a 90-day leave notice.

In terms of total payouts for stellar retiring reps, these rise from an earlier top level of 250% of their latest 12-month production to a maximum of 350%, including the benefits of a new formula for splitting revenue with younger advisors.

The current award program is equal to 50% of the average of the 12-month production for the past three years.

These are the broad strokes, which industry watchers say benefit a fairly exclusive set of advisors.

“Sometimes advisory councils [represent] the ‘largest of the large producers’ and typically the most vocal and needy,” said Andy Tasnady, a compensation consultant based in the greater New York area. “It’s no surprise that a team of high-end advisors came up with these types of awards.”

(Other **compensation changes** (https://www.thinkadvisor.com/2018/07/31/morgan-stanley-rolls-out-2019-comp-plan/)were announced by Morgan Stanley in July.)

Details, Details

More specifically, advisors signing on to the new program would be leaving the current cash payout, which is spread out over two to four years, for a deferred program in which they may receive more money but have to wait 10 years to access it.

The main advantages? They get to manage that money during that decade, and it’s part of a tax-deferred program, which is what some of the firm’s top advisors told Morgan Stanley they wanted.

“So for some advisors, there appears to be a tax and value benefit,” Tasnady said.

More details are as follows:

- Advisors with at least $10 million in gross fees and commissions for three consecutive years are eligible for an award equal to 100% of their average yearly revenue over this period;
- Advisors with $5 million to $10 million in gross fees and commissions for three consecutive years are eligible for an award equal to 75% of their average yearly revenue over this period.
- Advisors with $2 million to $5 million are not in the deferred program but can qualify for awards of 60% to 65% of their trailing-12-month level of their gross production, if they sign the 90-day leave declaration.

Big vs. Small Producers

But while the wirehouse is touting its new offer, industry experts point out that the program is only poised to help about 800, or 5%, of its advisors. "Very few qualify for [the new program]," Tasnady said.

"A $10 million revenue level is very theoretical. It's a level that only a few can hit," he added, noting that this is pretty much the case for the $5 million and up level, too.

There are a few "creative ways" an advisor could hit these higher payout targets. An advisor might sign up for the new program, join a team and grow, say, from a $5 million practice to a $10 million one, according to a person familiar with the program.

Splitting Revenue

Another aspect of the new retirement program is possibly higher payouts from revenue sharing.

For the first five years after leaving the working world, advisors with at least $485,000 in yearly fees and commissions can negotiate higher revenue splits (or sharing deals).

According to Morgan Stanley, this can boost their comp by up to 50% of annual production via deals that give them 60% to 85% of production — roughly a 10% per year increase over the current program.

"This doesn't cost them a dime … [since] outgoing advisors can negotiate with advisors taking over their business for a more generous split for five years," Tasnady said. "The person taking over the book gets less."

Bigger Issues

In the broader context, firms like Morgan Stanley are trying "to keep the bigger practices at the firm in healthy way as their advisors age — so the reps do not try and monetize their practices somewhere else," said recruiter Danny Sarch, head of Leitner Sarch Consultants in White Plains, New York.

"It's a hope, that remains to be seen, that legacy practices can be carried on by others," Sarch said. "And it's a real challenge to keep clients as happy with successors as they were with the legacy advisors."

Overall, the veteran recruiter said of the plan: "I get it. It's not surprising, especially the part about keeping advisors from leaving [with the 90-day notice]. There's a carrot-and-stick approach to the news."

— Check out How to Take Over a $1 Billion Practice at Morgan Stanley (https://www.thinkadvisor.com/2015/03/02/how-to-take-over-a-1-billion-practice/) on ThinkAdvisor.