2019 Comp: Wells Fargo Advisors Clips Payout to Low Producers

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(Updates 12th paragraph with Wells commitment to remain in the Protocol for Broker Recruiting.)

Wells Fargo Advisors told brokers in its private client group on Thursday that it won't be rocking the boat on their 2019 compensation, with the exception of a payout cut to its lowest producers.

As expected, the brokerage unit is making no changes in payout for the bulk of its roughly 9,400 brokers, continuing to guarantee them 50% of all fees and commissions they produce from clients after hitting monthly "hurdles" and 22% on revenue up to the hurdle levels.

The three hurdles will continue to range from $11,500 for the highest performers—based on revenue, size of average household accounts and service mix— to $13,250 before the 50% payout is collected.

But in line with competitors that are penalizing low-level producers, Wells is cutting payouts for some brokers to a mere 19% on pre-hurdle revenue and 47% after that. The new penalties apply to brokers with at least seven years of industry experience who generate less than $250,000 of annual revenue from their clients, a population that is less than 5% of private client group advisors, Wells officials said.

"At a certain level, the revenue that you produce is indicative of your engagement with clients," said John Alexander, head of Wells Advisors' five "West" regions. "When you're doing the right thing for clients, the result is that you'll do more business."

The penalties for low producers are generally in-line, if not slightly less punitive, than "penalty box" policies at competitors such as Morgan Stanley Wealth Management and UBS Wealth Management USA, said Andy Tasnady, a retail brokerage compensation consultant who helped design Wells Fargo Advisor's two-tier monthly plan more than a decade ago.

In a rare exception to the penalty-box culture, Merrill Lynch has excised a 2018 payout that fell to 20% for brokers who generate less than $250,000, reinstating the firm's standard low-point grid rate of 34% for 2019. (Merrill, however, is eliminating payouts for all brokers next year on the first 3% of revenue they produce.)

Brokerage firms cause agita among their salesforce by tweaking their payouts, bonus qualification and recognition club criteria almost annually to induce sales and customer-care behavioral changes. Considering the drumbeat of scandals and investigations that has plagued Wells Fargo & Co. over the past two years, its decision to keep its compensation plan relatively unchanged is wise, Tasnady said.

"It's probably a good time for Wells to make as few changes as possible because it is still under regulatory scrutiny and in a bad press penalty box itself," Tasnady said.

Wells Fargo Advisors has lost more than 1,000 brokers net across its private client, independent contractor and in-bank channels since its parent disclosed two years ago that bankers opened fake accounts to hit sales and bonus targets. Executives have said that recruiting is bouncing back, in part due to higher incentives being paid to outside recruiters.

Rich Getzoff, who runs Wells Advisors six "East" regions, said in an interview that the firm has championed consistency in its compensation plan for many years. The 2019 plan is the fifth in a row without a rise in the monthly hurdle rate, and the eighth consecutive year of payout stabilizing at the 22/50% rate.

Getzoff and Alexander in February reiterated the firm's commitment to remaining in the Protocol for Broker Recruiting, which allows brokers to take some customer-contact information with them to new firms, and on Thursday said they continue to recruit Protocol and non-Protocol advisors. "We stand behind the decision," a spokeswoman said.

Leaving the pact could help retain brokers fearful of being sued or of having trouble jump-starting their practices, but recruiters said an exit would also be a deterrent to hiring new advisors.

In one effort to assuage current advisors who work on teams, Wells on Thursday eased their ability to qualify this year for a 50% payout on all revenue regardless of the hurdle if 75% of their household accounts have at least $250,000 and at least one team member produces $800,000.

Any team that hits the 75% bogey in any quarter of 2018 will get the cross-the-board payout retroactively in February 2019, it said.

“Our intention is to reward advisors for participating in the program regardless of when they achieved the segmentation requirement, given it was the first year of the program,” the spokeswoman said.

—Jed Horowitz contributed to this story.