Morgan Stanley ups grid thresholds amid comp plan changes

Morgan Stanley advisors may have to work just a little harder to earn the same pay next year as the firm raises thresholds for its compensation grid.

It's one of several amendments to the firm's 2020 comp plan, which emphasize advisor growth, client engagement and financial plans. Management cast the changes as necessary moves to stay relevant to clients in an evolving market environment.

"Yesterday, the Morgan Stanley Investment Strategy team issued their 2020 market call which predicts that next year and the years that follow will be more challenging from a return perspective than this past decade," Vince Lumia, head of field management, said in a company memo. "In other words, now more than ever, our modern wealth strategy, centered on a financial plan, will help ensure that you serve your clients better than anyone else in the industry and supports the steady growth of your practice."

Morgan Stanley is increasing thresholds on its compensation grid below the $5 million mark by approximately 10%. In theory, an advisor earning $500,000 may have to boost production by $50,000 to bring home the same paycheck. There's no change to credit rates and deferral ratios.

Grid thresholds don't change frequently, in part because some advisors bristle at what they see as goalpost shifting.

"You'll have a lot of unhappy FAs. No doubt," says recruiter Michael King, adding it may spur some advisors to consider going independent.

The last time Morgan Stanley made such a change was 2017.

Andy Tasnady, a compensation consultant, says that while bonuses can be difficult to implement, payout grid changes are easier to put in place. "You can model it very easily," Tasnady says.

Timing also helps. It's also more palatable to move grid thresholds in an up market than a down market, Tasnady says.

In other adjustments, Morgan Stanley is boosting incentives for advisors who grow their practices and bring in larger clients. Starting April 1, advisors can increase their credit rate for compensation by up to four percentage points. The move sweetens a bonus formula introduced last year. For the 2020 plan, it breaks down as follows: Advisors get one percentage point for clients who have a financial plan and are enrolled in Morgan Stanley online; they get one percentage point on revenue generated by clients who have at least $500,000 of net new assets or grow net new assets by at least 5% of AUM; and they get two percentage points on revenue generated by clients who have net new assets of $2 million or more.

The wirehouse is also simplifying its small household policy (those under $250,000) and boosting emphasis on financial plans. Also beginning April 1, the firm will take into account assets, plus liabilities, to determine if a household is subject to the policy.

To give advisors and clients more time to transfer assets to Morgan Stanley, the firm's small household policy exemption will be extended to 12 months from six for newly opened households.

Small client accounts with qualified financial plans will result in a full payout plus one additional percentage point, but accounts that don't will have a 10% credit rate — down from 25% under the previous comp plan.

Accounts with less than $100,000 in assets and liabilities are also getting a cut, dropping to a 5% credit rate from 10%.

"It's a cost savings for the firm because you'll either move the account to the service center or you'll keep it but get paid less," Tasnady says.

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Morgan Stanley's emphasis on financial planning is intended in part to help advisors aggregate assets. Clients who have financial plans are more likely to transfer funds into their accounts, according to a person familiar with the matter.

The firm is also reducing by 5 basis points gross revenue credits for BDP, ticketed and sweep money market funds, and its savings program in brokerage accounts.

The company is adding a new recognition program for support staff, such as client service associates. Morgan Stanley advisors will now be able to award these personnel $100 for each client that establishes either a new recurring deposit of $5,000 or more, or a new recurring Social Security deposit for three consecutive months.

Morgan Stanley's suite of comp plan changes stands in contrast to rival Merrill Lynch, which recently announced it was leaving advisor pay untouched for 2020. Merrill did, however, up payouts for its advisor retirement plan to encourage more employees to retire at the firm and transfer their clients to younger colleagues.