2020 Comp: UBS Raises Payout Hurdles Across the Board

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(Updates with comments from compensation consultant.)

In a forceful effort to induce its U.S. brokers to produce more revenue while trimming its expenses, UBS Wealth Management is raising the minimum amount of fees and commissions they must generate in 2020 to earn the same payouts as this year.

The 2020 compensation changes, expected to be announced to the firm's more than 6,000 U.S. brokers on Tuesday, will raise hurdles from the bottom to the top of UBS ranks, with particularly steep rises for mid-level and top producers.

Brokers who this year retain 39%, 42%, 49% and 50% of what they raise from customers will have to produce $200,000 more in the new plan to hit the comparable 2020 production bands, according to summaries of the plan reviewed by AdvisorHub.

"The big surprise is they usually try to leave the big producers alone, but they really took it to them," said one manager at UBS, who spoke on condition of anonymity.

“Ouch,” said another manager who was given a preview of the compensation plan changes, and who also was not authorized to discuss them publicly.

“Aligning our Financial Advisors’ ambitions to grow their businesses with the firm’s strategic focus on growth, we are making certain changes to the grid,” UBS wrote in a Frequently Asked Questions presentation shared with some managers. “To that end, we have evaluated the key grid breakpoints and...have increased thresholds across all levels.”

To ease some of the pain at the mid-level, UBS has added new grid bands paying out 37% (for $500,000 to $625,000 producers) and 45% (for $2 million to $2.5 million producers.) The standard grid next year will include 15 levels, with payout spanning the same range as in 2019 of 28% to 50%.

To earn the bottom 28% standard grid payout, brokers must produce at least $300,000, up from $200,000 in the current plan.

Cash grid rate	Historical T12 threshold	2020 T12 threshold
28%	Below 200k	Below 300k
30%	200 to 250k	300 to 350k
33%	250 to 350k	350 to 450k
35%	350 to 425k	450 to 500k
37%	N.A.	500 to 625k
39%	425 to 625k	625 to 750k
41%	625 to 750k	750 to 950k
42%	750k to 1m	950k to 1.2m
44%	1 to 1.75m	1.2 to 2m
45%	N.A.	2 to 2.5m
46%	1.75 to 3m	2.5 to 4m
47%	3 to 5m	4 to 6m
48%	5 to 7m	6 to 9m
49%	7 to 10m	9 to 12m
50%	10m+	12m+

Andy Tasnady, a compensation consultant, said that the approximate 20% threshold raise across the new plan is “as large a grid stretch as I’ve ever seen,” estimating that it will affect a majority of UBS’s brokers in the U.S.

UBS is the second big brokerage firm to retreat from recent years’ efforts to keep compensation grids unchanged in an effort to assuage brokers. Morgan Stanley last month raise hurdles by about 10% for all but the top rank (55.5% payout for $5 million producers) of its nearly 16,000 brokers.

The 2020 changes are the first that UBS and Morgan Stanley have made in three years. Merrill Lynch has not yet announced its plan for next year, although Merrill Wealth chief Andy Sieg has said the firm is not planning major changes after some dramatic shifts in recent years, including no payout on the first 3% of monthly revenue brokers produce.

The changes indicate firms' frustration with low net growth rates in advisors' books, said Tasnady.

"As more of them get onto fee-based platforms, their (asset-based) pay is rising because of market growth, not new money," he said. "The bulk of advisors find it difficult to grow net new assets, especially when they have older customers who are drawing down their accounts."

In addition to raising the bar for individual brokers, UBS Wealth Management Americas is raising requirements for team payouts. Teams must generate a combined $6 million and have average FA production of $1.2 million to qualify for the "combined" grid payout of at least 48% to all members. That's up from a team production minimum of $5 million and average FA production of $1 million in the 2019 plan.

UBS is also raising the hurdles for an alternate award that allows all brokers on a team to earn the payout of the highest producer. To qualify in 2020, teams must generate $3 million in revenue and have average production per advisor of $900,000, up from $2.5 million and $750,000 in this year's plan. (UBS introduced team bonuses in 2016 in an effort to increase specialization and sales and to make it more difficult for individuals to bolt to other firms.)

Like Merrill Lynch and other firms that have been offering carrots and sticks to motivate brokers to increase assets they raise from customers, UBS has tweaked its "net new business" formula awards for 2020.

Advisors can add as much as 16% of additional payout in the form of bonuses for bringing in new money (assets and loans), and achieving other "strategic growth" goals, according to the summary. In what it calls an "enhanced" benefit, the firm is offering bonuses on all net new business down to the first dollar raised. Currently, advisors have to bring in at least $1 million before they can qualify for the "enhanced net new business strategic objective award."

The bonus, paid half in cash and half in equity and deferred over six years, range from 1% of net new assets on the first $1 million a broker produces, to 5% for $50-$100 million raised. UBS has added a new 6% level for those rare advisors who raise $100 million or more, although the bonus tops out at $250,000.

"We believe that our compensation plan continues to be the industry's most competitive," Wealth Management USA head Jason Chandler wrote in a memo to advisors introducing the plan changes.

UBS does not pay its brokers on households that keep less than $100,000 with the firm (Merrill Lynch has a $250,000 cutoff), but is not changing its policies for referring those "small" accounts to its call center-like service (Wealth Advice Center). Brokers will continue to receive full production credit for the migrated assets at a 30% grid payout rate. And money that moves to the low-cost service center from households with between $100,000 and $300,000 will continue to receive full production credit at the advisor's standard grid rate.

Brokers who service international (non-resident alien) accounts have a new impediment. Their clients must keep at least $1 million with UBS as of July 1, 2020, double the $500,000 minimum currently required.

Merrill Lynch and Morgan Stanley have dramatically cut their service to international accounts by U.S. brokers because of increased regulations in recent years. Morgan Stanley earlier this year raised its minimum to $2 million.

UBS's 2020 plan reflects a broad tightening of the reins by UBS's Swiss banking parent, which has included a three-year retrenchment from the expensive recruiting of veteran U.S. brokers.