What to Make of Wirehouse Comp Plans

Consultant Andy Tasnady explains recent changes at Wells Fargo, Morgan Stanley and UBS.

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The wirehouses have tinkered with their compensation plans for 2020, sharing details on comp updates for their advisors over the past few weeks. Shifts in comp grids at Merrill Lynch, Morgan Stanley, UBS and Wells Fargo are closely watched by other firms (as well as recruiters) as they can influence other industry players and advisor movement.

This year, Merrill limited changes, while the other wirehouses plowed ahead with adjustments for the next 12 months. Andy Tasnady, head of compensation consultants Tasnady & Associates, explains the broader picture painted by these changes.

1. Small Households Get the Thumbs Down “Wells Fargo was the last of the four wirehouses to focus on discouraging small accounts,” Tasnady said. This delay may be due in part to the history of Wells Fargo Advisors, which has included the rollup of many regional firms. “These regional players tended to have more smaller accounts and clients [than the wirehouses], as well as somewhat lower revenue per advisor, which “goes hand in hand with smaller accounts,” he explained.

“If their advisors were getting a bit more [revenue] proportionally from small accounts, [it makes sense] they were the last to join the other wirehouses in having a small-household penalty policy,” Tasnady said. “They’re trying to catch up for lost time.”

For next year, he says, WFA is raising the client account minimum from $100,000 to $250,000 and creating a disincentive around these accounts. “Advisors generally get 20% on these accounts; they can earn it back in deferred compensation, if they have a certain mix in their book of business — i.e., one that doesn’t include too many small accounts,” he explained.

Overall, firms like Merrill Lynch have been encouraging advisors to move smaller accounts to its phone-based advisor center. Morgan Stanley just moved to simplify its small-household policy for 2020. As of April, it will use assets and liabilities to determine whether a household is subject to the small-household policy. Also, client accounts that have a qualified financial plan will earn advisors full payout plus one extra percentage point.

Meanwhile, Wells Fargo’s adoption awards aim to limit the portion of small accounts that are part of an advisor’s overall book of business. “It’s been a 20-year effort at the large firms to encourage advisors to move small accounts to phone centers and stop clogging up advisors’ ability to serve larger accounts,” Tasnady said.

“Wells Fargo has had incentives for large accounts for a while and only recently put in the penalty for smaller accounts,” he added. Overall, it is aiming for advisors to incorporate yearly financial plans, lending and estate planning services into its work with clients.

“The focus is on more contact with clients, as the industry shifts to fee-based work rather than the old practices of trading 100 shares of IBM stock,” the consultant explained. “Today, the idea is to call clients ... to discuss their progress toward reaching their financial goals, rebalancing and not panicking when the market makes a sudden move.”

Typically, the large brokerage firms have behaviors they emphasize through bonuses, such as shifts to financial planning, growth goals, recurring fee-based business or a certain mix of business. “Wells Fargo has a bonus dedicated to a certain mix,” Tasnady said, “while other firms use an advisors’ mix of business as part of the criteria for other bonuses and/or higher team payouts, for instance.”

2. Simplicity Rules at Wells Fargo Wells Fargo has a core two-tiered comp plan that is “pretty simple” compared with the multi-layered or stair-step grid used by the other wirehouses, according to the compensation consultant. The bank also pays advisors 50% cash for incremental revenues, even at the lower revenue levels. At the other wirehouses, “You’ve got to be a very high producer to get 50% cash on marginal business,” he said.

Plus, Wells Fargo pays advisors a higher portion of compensation in cash versus deferred payments than its rivals.

For instance, if an advisor has $32,500 a month in revenue, about $12,500 is paid out at the 22% cash level and the rest at 50% cash every month; all dollars of revenue above that first hurdle are paid at 50% cash, in other words. “It’s easy to figure it out,” Tasnady said.

(In other words, advisors do not get a 28% payout on the first $150,000 in production for 2020, which works out to them not getting about $42,000 over the full year; they do, though, get paid 22% cash on the first $150,000 — or $33,000 — and then 50% afterwards.)

An advisor producing revenue of $480,000 a year, or $40,000 a month, would see a weighted balance of 22% compensation on the first $12,500 in monthly production and the rest at 50%, he explains.

Larger producers with yearly revenue of over $1 million or $1.15 million — the size of many average producers at the other wirehouses — could get 22% cash on $150,000 and 50% for the remaining $1 million in revenues. “That’s a 50%-cash payout realized more quickly than at other firms,” Tasnady said.

In general, Wells Fargo’s deferred comp is less behavior-based than rivals’, he adds — which is likely due in part to concerns on the retail-banking side of the company. The bank removed behavior-based bonuses in the wake of its fake-accounts scandal, other problems (including some in the wealth unit) and the resulting regulatory and legal fallout.

3. Growth Is King For advisors, firms with a growth focus use it to influence deferred compensation, awards tied to production and, to a lesser extent, for longevity awards. “The wirehouses tend to have bonus incentives for growth and new accounts and net new accounts, which Wells Fargo does not,” Tasnady said.

Merrill is seen as the most aggressive, having announced a growth-focused program in 2017 for the following year — with comp rewards and penalties adjusted in accordance with an advisor’s growth rate. Both Merrill and UBS have bonuses based on net new assets, he adds.

For 2020, UBS left its overall plan the same but increased its cash-grid thresholds in a move to push growth. This means advisors with payouts of between 39% and 50% of revenues will need to increase their fees and commissions by $200,000 in 2020 to achieve the same payouts they earned in 2019.

A 28% payout is earned when advisors produce $300,000 in revenue — a large jump from $200,000 in 2019. The Swiss-based bank also put in a 37% payout for advisors with $500,000 to $625,000 in revenue, as well as a 45% payout for those with $2 million to $2.5 million.

Also, UBS says it is adding a net new business award for advisors who are “net new business positive.” “Growth is the most popular target for additional bonuses,” Tasnady said.

Plus, UBS announced more investments in planning, technology and related resources, the re-establishment of its wealth planning analyst role, a new incentive program for branch technology liaisons, Private Wealth Services hubs (in New York, Florida, Chicago, Dallas, San Francisco and Los Angeles) and “a simpler accreditation path” for private wealth advisors.

(In late December, UBS said its new team revenue thresholds for its combined team grid, CTG, and highest producer grid, HPG, will take effect on July 1, 2020, along with the new production thresholds for industry length of service.

Average production per advisor for the CTG and HPG team qualification, though, will go into effect on Jan. 1, 2020.)

Morgan Stanley is linking some 2020 advisor compensation, to be paid at a set amount, to “growing clients and only to those growth-achieving clients,” Tasnady said. “It’s a slimmer way of paying, since they’re not paying on all production but only on the clients meeting the growth criteria (and having a financial plan).”

Overall, such steps aim to encourage advisors to deliver what is deemed to be “top-level service,” which the wirehouses see as being key to client retention, growth and satisfaction, he points out. “In general, though, Wells Fargo does not have many behavior-based incentives, such as growth awards. It doesn’t want [to be seen as] pressuring clients in a particular direction or to a special lending program, for instance.”

All firms, of course, want to encourage advisors to move upmarket, gain efficiency and grow. “There are moves to introduce more online and phone-based services for smaller accounts and that can bleed into other channels,” according to Tasnady.

Janet Levaux is editor-in-chief of Investment Advisor. She can be reached at jlevaux@alm.com.