Morgan Stanley to Roll Out 'Minor' Comp Changes for 2021 | ThinkAdvisor

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Given its earlier "draconian cuts," the wirehouse doesn't "have much room to maneuver" next year, says recruiter Mark Elzweig.

Morgan Stanley's New York headquarters (Photo: Bloomberg)

Morgan Stanley is keeping its core advisor compensation plan the same for 2021 while tweaking some associated policies.

For instance, the wirehouse is adding new team compensation hurdles and boosting the minimum for new Private Wealth Management clients from $2 million to $5 million next year, the company disclosed to reporters Tuesday.

Overall, "these are minor changes, and they will be well received" by Morgan Stanley's 15,469 advisors, according to executive recruiter Mark Elzweig.

"On the other hand, the firm has made some draconian cuts in years past — so they don't have much room to maneuver this year," he told ThinkAdvisor.

"They raised the goalposts on their grid by 10% last year, and prior to that they took some current cash compensation and journaled it over into a deferred payout format," Elzweig explained.

Details of Morgan Stanley's 2021 comp plan were made available to the wirehouse's advisors in a Dec. 8 memo written by Vince Lumia, head of Field Management.

"As you will see, there are very few changes for next year," Field said. "Importantly, the plan remains consistent with our Modern Wealth strategy and demonstrates our continued commitment to support the growth of your business as you deliver the highest standard of care to your clients, even in the most challenging of times."

In 2019, Morgan Stanley changed its grid by implementing a 10% increase in the revenue hurdles advisors must achieve across its payout grid. That change was scheduled to go into effect in April but was delayed until October due to the COVID-19 pandemic.

Team Hurdles

Despite leaving the core comp plan intact for the firm's advisors next year 2021, Morgan Stanley is rolling out a new Client Engage qualification for team compensation. It requires advisor team members to achieve at least one of three hurdles in order to qualify for compensation at the payout level of the team's largest revenue producer, Lumia said.

The hurdles that must be achieved at least once in 2021 are as follows: The team must post positive net new assets (i.e., net asset growth) for a trailing 12-month period; or 10% of an individual team member's clients must sign up for financial planning services, or 75% of a team member's clients must use Morgan Stanley's online platform and tools.

"The team bonus payout rate qualification change really would affect the junior members the most, as they are the ones that can really get a big pay rate percentage boost from going [up] to the payout rate of the top team member," said Andy Tasnady, managing partner of Tasnady Associates.

However, "I would hope most teams have at least 10% of their accounts with a financial plan if they were operating as a top quality service team, but you never know," Tasnady added.

"The 75% requirement for clients to be using Morgan Stanley online service seems like one that runs the risk of having team members just sign up accounts, but hopefully there is some type of control or client approved criteria in place," the compensation consultant explained.

Advisors with Morgan Stanley had an average asset level of $184 million, and average trailing 12-month fees and commissions of $1.20 million as of Sept. 30.

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Private Wealth, Other Changes

Starting April 1, 2021, new Morgan Stanley Private Wealth Management client households, meanwhile, must now have a minimum of $5 million assets, up from $2 million, in order for advisors to get payouts tied to these accounts. However, new households will be exempt from that small household policy for 12 months, Lumia said.

In addition, PWM "accounts that have a qualified financial plan and monitoring and are within a household with at least $100,000 of assets plus liabilities are exempt" from the policy also, he noted.

The firm also simplified its Lending Growth Award, effective Jan. 21, making it easier for advisors to qualify for it by removing the last year's requirement of six new loans for award qualification, Lumia said. The award amount is calculated by multiplying an advisor's lending balance growth by a 50 basis point payout rate, and the award is capped at $250,000.

Most of the changes made by Morgan Stanley "reflect continuing realization by wirehouse management that shedding small accounts, cross-selling, providing financial planning and digital tools are essential for them to remain relevant and profitable in a world of declining basis points," Tim Welsh, head of the consultancy Nexus Strategy, told ThinkAdvisor Wednesday.

Rivals' Comp Changes

Rival UBS recently disclosed it decided not to adjust the compensation plan for its financial advisors in 2021 and will maintain the current payout plan it's used in 2020.

In May, UBS joined other wirehouses and pushed back the start of changes to grid payouts due to the pandemic.

Last week, UBS rival Wells Fargo Advisors said it raised by $1,000 the monthly revenue hurdle that its brokers must reach before they receive a higher payout rate. This move marked the first shift in the WFA hurdle since 2014.

Merrill Lynch recently said it eliminated pay to advisors on all client household accounts under $250,000; it did though leave its core incentive compensation grid intact for 2021.

Performance hurdles for Merrill’s growth grid, meanwhile, will remain at the same levels introduced in mid-2020. The wirehouse slightly tweaked its team grid program, which factors in an entire advisor team’s book.

It also made a slight tweak to compensation on cash accounts, moving from 4.0 basis points to 2.0 basis points on the credits brokers get on cash deposits in bank and brokerage accounts, money market funds, bank CDs and brokered CDs.