Merrill Ends Advisor Payouts on Small Accounts | ThinkAdvisor

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But the firm's decision to leave its comp grid alone stands as welcome news for advisors, consultant Andy Tasnady says.

(Photo: AP)

Merrill Lynch eliminated pay to advisors on all client household accounts under $250,000, but left its core incentive compensation grid intact for 2021, the wirehouse told its advisors and reporters Thursday.

Performance hurdles for the firm's growth grid, meanwhile, will remain at the same levels introduced in mid-2020, the company said. Under that program, introduced by Merrill Lynch a few years ago, if advisors bring in a certain number of new households and net flow increases, they get a 1% increase in pay, but if they don't reach the minimum hurdles, they get a 1% reduction.

The firm reduced the minimum growth grid requirements in June due to the COVID-19 pandemic and those lower hurdles will remain in place into 2021, it said Thursday.

For advisors to "sustain" the "momentum" they have achieved in 2020 despite the pandemic and in a current "environment that remains less normal, we felt it was important to maintain stability in our compensation plan heading into next year," a senior Merrill executive told reporters during a phone briefing.

Merrill Lynch, meanwhile, slightly tweaked its team grid program, which factors in an entire advisor team's book. "The client engagement criteria will be simplified and move to an overall book-level performance view," after previously focusing on individual clients leveraging specific solutions, the company said.

The company 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.

Predictable but Welcome News

"The fact that they didn't change the core grid is always welcome news by advisors" because that is what "the majority of their comp is determined by," Andy Tasnady, managing partner of Tasnady Associates, said Friday.

Meanwhile, the "minor tweak" that Merrill Lynch made "on the remaining 20% payout" to advisors with clients $100,000-$250,000 was "not a very big issue," he told ThinkAdvisor. After all, the move was "certainly consistent with the 20-year progress that Merrill's been undertaking on reducing payouts on small accounts," he said.

Merrill Lynch was also "the firm that initiated that whole policy probably about 20 years ago, moving small accounts over to their service center phone-based brokerage service," he pointed out, adding the firm "started with $25,000 accounts and then they really have [led] in pushing up the size of the policy, up to" $250,000 now.

Merrill Lynch cut payouts to 20% for the $100,000-$250,000 household segment in 2012, it said Thursday.

In comparison, rival Wells Fargo's 2020 compensation plan reduced payouts last year on client households with less than $250,000 in assets to 20%. Previously, that payout level applied to households under $100,000.

"Tightening small account policies just reflects the strategic direction in which firms want to go," executive recruiter Mark Elzweig told ThinkAdvisor on Friday. "The fiduciary mindset requires more in-depth work with fewer but bigger clients."

The firm's decision to not change the core grid was "in line with what I expected," Elzweig said.

Noting "the industry has done a superb job surmounting the challenges of the pandemic," he said "advisors have adapted very well too."

But "this is not the type of environment in which anyone would want to monkey with their grid," he said. "That would be a real kick in the teeth."

Rival Morgan Stanley hasn't announced its 2021 comp plan yet. It had said in March it was delaying an important change to its compensation plans until October. The change, involving a jump in the levels of yearly fees and commissions under $5 million used as thresholds in the incentive comp grid, had been set to start April 1.

Just before Morgan Stanley's announcement, Wells Fargo said that, because of the pandemic, it was holding off on a plan to raise the client asset level at which an account fee was waived. It had said that, starting Sept. 1 this year, client households would need assets of $500,000 in their accounts to avoid fees that typically are as high as $300 per year; earlier, the asset level to avoid the charge was $250,000.

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

Client Balances, Production

Merrill Lynch on Thursday also reported record client balances of $2.6 trillion as of the end of the third quarter. Its advisors are "on track" to bring in more than 20,000 net new households by the end of the year, and almost 80% of clients are now leveraging the firm's digital capabilities and for more of their needs.

Seventy-eight percent of advisors will achieve higher production this year than last, with 65% of them "on track to have a record year," the senior Merrill executive told reporters Thursday. "That level of growth would be impressive in any year and in any environment, but at the end of 2020, I think we can call it quite exceptional."

The company also predicted that, by year-end, it will have more than 500 wealth management bankers, an increase of more than 150% since the start of 2020.

The company declined to say how many advisors it has now or how many it expects to have by the end of 2020. But the Merrill Lynch website says it has more than 14,000 advisors.

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