J.P. Morgan Advisors Gives Broker Comp a Facelift, Adds Sunsetting Program - AdvisorHub

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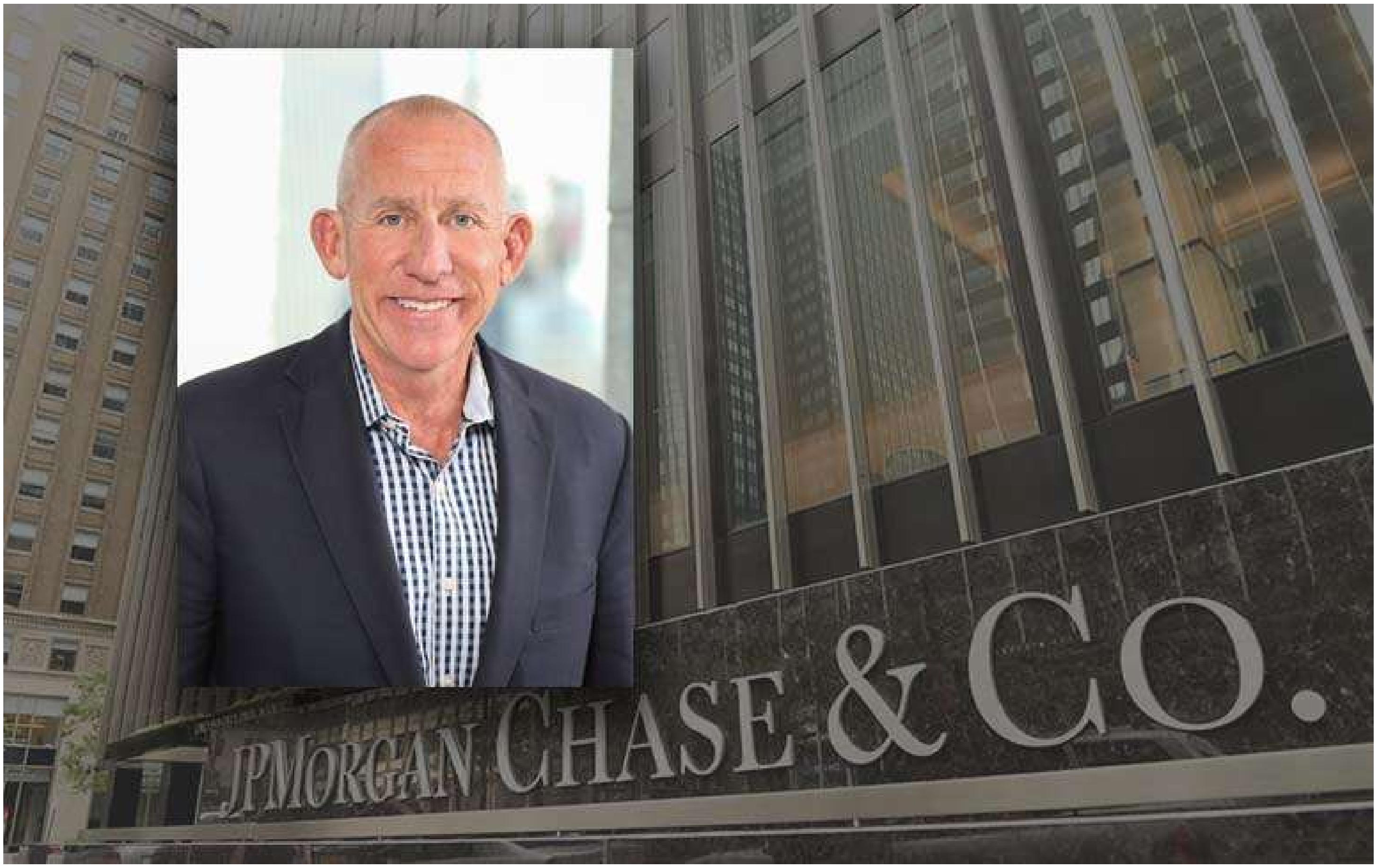

Phil Sieg, who took over as head of J.P. Morgan Advisors in April, unveiled the retooled plan to brokers on Tuesday.

(Updated with additional details and comments on comp plan in the seventh and eighth grafs.)

J.P. Morgan Advisors is giving its "outdated" broker compensation plan a makeover with a revamped payout grid and new bonuses for gathering more assets, loyalty, and teaming, according to Chief Executive Phil Sieg, who took the reins of the 450-broker unit in April.

Sieg unveiled the new plan internally on Tuesday at a hybrid virtual and in-person town hall event for brokers that also featured an address from JPMorgan Chase Chief Executive Jamie Dimon. The changes, which follow a broad plan to expand the business that Sieg laid out this summer along with J.P. Morgan Wealth Management head Kristin Lemkau, will take effect in January 2022.

"As part of Jamie's and Kristin's commitment to grow this business we took on the task to review an outdated 20-year old compensation plan," Sieg said in a memo to brokers following the announcement. "What we landed on is a transparent and competitive plan that seeks to attract and retain the best talent, strongly incentivizes top performers, and provides stability and continuity to your clients."

Sieg also on Tuesday telegraphed a new sunsetting program called "The Client Relationship Succession Program" that is open to retiring advisors and "helps ensure a smooth transition for clients and incentivizes advisors" to leave their books with the firm. The memo did not provide any additional details on the program, and a spokeswoman declined to comment further on whether it will resemble programs at other firms that pay a retiring advisor for their book over a period of years. The firm had previously had an informal transition program in place that was not heavily marketed, recruiters said.

"It's not just hiring more advisors and updating compensation," Dimon, who called into the town hall from London, told brokers, according to the spokesperson. "We are making this the best place to build your practice and serve your clients for your whole career."

As part of the compensation changes, J.P. Morgan is retiring a "step-up" grid where payout rates reset at the start of each year and moving to a trailing-12 month formula that pays advisors a scaling rate based on the fees and commissions they generated over the past year, Sieg said in an interview. The legacy pay formula, which had been in place for almost two decades, had a "relatively low" top payout level, according to the executive, who declined to discuss specific numbers.

The new payout grid can reach over 50% of brokers' trailing-12 revenue, up from a high point of around 47% for a million-dollar producer under the old tiered system, according to Pete Secret, a former regional director who left last year and now owns a recruiting and coaching firm in Atlanta. Secret, who spoke with brokers at the firm after the meeting, said the new plan had been well-received among larger producers, although he said some brokers still had qualms about technology and channel conflict with the bank's other wealth units.

"That's the real reason why people leave," Secret said. "Nobody left J.P. Morgan because of the compensation."

J.P. Morgan Advisors is also phasing out an earlier bonus that had rewarded brokers primarily for markets-driven asset growth and replacing that with a bonus based on net asset flows, called the "flows award," in addition to the length-of-service award and a team "mirroring" bonus that offers all members of a team the payout rate of the highest producer. The bonuses are paid in restricted stock units, according to the memo.

"We spent a really significant amount of time with this," Sieg said in the interview. "We wanted to take a look at all the components and put together something that was representative of the business that we're investing in and growing."

Sieg, whose career included 30 years at Merrill where he ran its private wealth unit, said it is the first substantial change to the plan in 13 years, although the company last year tweaked the plan to align with the Securities and Exchange Commission's Regulation Best Interest.

Trailing-12-based grids, which are used by three of the four wirehouses, are typically more favorable for advisors, although it will ultimately depend on the specific grid rates, according to compensation consultant Andy Tasnady, who was not involved in crafting the new plan. The new bonuses also reflect popular behavioral incentives included in compensation plans at many of the major wirehouses, adding to its appeal for prospective hires, Tasnady said.

"This certainly aligns with more standard industry comp practices," Tasnady said. "They want to compete more aggressively in recruiting, which will be easier to do if prospects are comfortable with their new plan policies."

J.P. Morgan Advisors is also "standardizing advisor agreements" to make pay uniform and do away with some discrepancies or one-off deals that may have been agreed upon to allow a broker to keep a plan from an old firm, according to the spokeswoman.

The compensation plan follows Sieg's announcement this summer that the unit planned to more than double headcount to roughly 1,000 in part by hiring from the wirehouse pool. Its headcount has been relatively stagnant for several years.

Sieg, whose brother Andy runs Merrill Lynch's traditional brokerage business, also noted in the memo that the Advisors unit was expanding a pilot program for "situational partnerships" with Chase Wealth Management, which is part of an effort to increase coordination across its wealth units.

"This voluntary program allows JPMA Advisors to partner with CWM on select opportunities, specific to single client needs," Sieg said.

J.P. Morgan Advisors (rebranded last year from J.P. Morgan Securities) is a small fraction of the J.P. Morgan Wealth Management division, which includes 4,000 advisors in bank branch offices and a self-directed platform. J.P. Morgan also has a separate division of housing several thousand private bankers.

In the last two months J.P. Morgan Advisors has added a $250 million-AUM team from Morgan Stanley based in New York and Miami as well as a $300 million Wells Fargo Advisors group in New York.