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Merrill Lynch Overhauls Advisor Compensation, Raises Grid Thresholds

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By Andrew Welsch Follow

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Merrill Lynch advisors may need to work a little harder next year to earn the same pay under the wirehouse's 2023 compensation plan.

Merrill Lynch plans to increase thresholds associated with its core compensation grid for the first time since 2009, according to a source familiar with the matter. The grid determines what percentage of the revenue an advisor generates will be paid to him or her as a core payout, the largest component of compensation. The grid shows different percentages for different revenue brackets, with percentages increasing as revenue rises.

Merrill Lynch, the full-service wealth management unit of Bank of America , is making the changes to align grid ranges to be in line with today's markets, according to the source who described the outlines of the new plan.

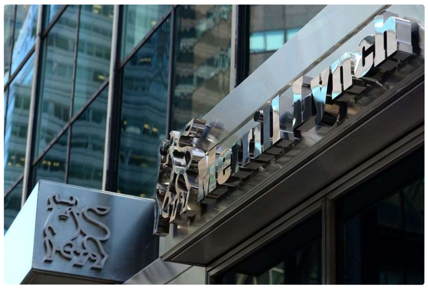
Other brokerage firms use a similar grid format, under which payouts range from about 30% to 50% of revenue.

With markets down this year, advisors may have their work cut out for them in 2023. The S&P 500 is down about 18% year to date. Bank of America's wealth unit, which includes Merrill, reported that total client balances for the third quarter fell 12% year over year to $3.2 trillion.

Andy Tasnady, a compensation consultant who did not work with Merrill Lynch on its new plan, says grid stretches are traditionally done in up markets to soften impact, but he notes that Merrill hasn't done one in years. Brokerage firms tweak their policies to encourage advisors to grow and expand their practices in certain ways, he adds. "A minor change to a minor policy can add up to meaningful cost savings for these firms, and maybe also drive behavior," Tasnady says, pointing to how wirehouse advisors have become more fee-based and focused on serving higher-net-worth clients.

Merrill Lynch's comp changes come amid a spate of departures from the wirehouse as advisors and teams with big assets under management have left to join rivals or open independent firms. Some advisors have left because they want more control over their practices or a desire to earn a higher payout.

Andy Sieg, president of Merrill Lynch Wealth Management, said last month that the firm's advisor attrition rate has been hovering around 4%, slightly lower than last year. He added that the firm is doing a better job of keeping the assets of departing advisors. The company's growth incentives have also motivated Merrill Lynch's brokerage force to grow; advisors have added nearly 16,000 net new clients as of September.



Merrill Lynch
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In a change advisors may welcome, Merrill Lynch is eliminating a policy that effectively cut advisors' pay, according to the source familiar with the matter. Under the policy, which was implemented in 2019, Merrill Lynch did not count the first 3% of an advisor's revenue toward their payout.

Industry trade news website AdvisorHub first reported that change.

Tasnady says some of Merrill's changes may appeal to the firm's brokerage force. "I think they took feedback from their advisors and tried to come up with a different package so that the mix is more appealing to advisors," he says.

Merrill Lynch is also tweaking a policy that rewarded advisors for reaching certain growth hurdles, and penalized those that fell short. For instance, advisors could boost their payout by a percentage point or more by bringing in new client households. Under the 2023 compensation plan, advisors who exceed the hurdles will be able to carry forward some of the extra new households to the following year, according to the source familiar with the matter.

The wirehouses typically make annual changes to their compensation plan, though the extent of those changes varies from year to year. Merrill Lynch, for instance, cut advisor payouts in 2021 to 0% for households under $250,000. The move mirrored comp changes at other wirehouses, which have tightened small account policies to encourage advisors to focus on high-net-worth and ultrahigh-net-worth clients.

Merrill Lynch is the second wirehouse to roll out compensation changes. Earlier this month, Wells Fargo unveiled its 2023 compensation plan for advisors. The company made small tweaks but left core payouts unchanged.

Write to Andrew Welsch at andrew.welsch@barrons.com