Will Depressed Pay Packages for Advisors Recover?

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Since October, when the Dept. of Labor flagged concern over conflicts of interest in advisor compensation, wirehouse recruitment deals have suffered. Are the days of 300 percent trailing-twelve-month incentive packages truly over?

Wirehouse compensation packages have remained low in 2017 and left some in wealth management wondering if recent changes to incentives are the new normal.

For top-performing brokers, pay incentives to leave one of the four major wirehouses – Morgan Stanley, Merrill Lynch, Wells Fargo and UBS – and join another have always been, and remain, present. But the deals just don't look like they once did.

Years ago, a total compensation package equaling 100 percent of a broker's trailing 12 months of production was considered a significant sum, said Rob Bartenstein, the CEO of Private Wealth Services at Kestra Financial, an independent broker/dealer that caters specifically to wirehouse brokers interested in becoming independent advisors. But beginning in the early 2000s, the total compensation offered to top brokers started ballooning to 300 percent or more.

Incentive packages generally include an up-front signing bonus and performance-based "back-end"

compensation paid over the course of their contract which, depending on the firm, lasts seven to 10 years. Although up-front signing bonuses have increased to as much as 150 percent, it was the more lucrative back-end structures that pushed the total compensation so high – and incentivized many brokers to stay with the firm.

Bartenstein, who previously worked at Merrill Lynch and Morgan Stanley, said he spent years predicting the end of rising large back-end compensations only to be proved wrong time and time again.

Then last fall, the Dept. of Labor released a list of FAQs on Oct. 27 clarifying new rules that targeted potential conflicts of interest from back-end compensation that was dependent on future performance. As a result, the deals changed over night.

Wirehouses slashed the back-end percentages of new compensation packages beginning Oct. 28. Teams of financial advisors ready to call clients and notify them they were going to be joining Morgan Stanley were suddenly in a holding pattern the next day, unsure what their compensation was going to be.

Since October, the compensation packages have been hovering around 200 to 250 percent, according to independent broker recruiters, former wirehouse brokers and current wirehouse employees.

While the brokerages competed in a compensation arms race, it was hard to backtrack without the risk of slowing the inflow of top performers and losing brokers to other wirehouses. But the DOL notice affected the tide, rather than a few ships.

Mike Wunderli, a managing director at **ECHELON Partners**, said compensation packages are "in flux right now and where it's going is unknown."

"I believe [the wirehouses] are happy about this new development, the lower all-in deal packages, and will use this as an excuse to keep packages low as long as they can," he said. The larger compensation packages of 300 to 350 percent make it harder for the wirehouses to make a profit from the advisor.

Wunderli added that while total compensation packages are as much as 100 basis points lower than they were last year and aren't wowing as many brokers, the larger packages, offering 300 to 350 percent, are harder for the wirehouses to profit from.

"The one thing we can all point to is a period of change," Bill Willis, president of Willis Consulting, said. "The reality is the firms with largest deals are trying to see if they can do business at this lower level."

Lowering the total compensation for brokers by a third is a big change, so some of the wirehouses appear to be sweetening deals by matching a higher percentage of the unvested deferred compensation advisors held at their previous firm.

Merrill Lynch and UBS have offered to match 100 percent of incoming brokers' previous unvested deferred compensation at their old firm.

Morgan Stanley, Merrill Lynch, UBS and J.P. Morgan declined to comment on broker compensation for this article. Wells Fargo confirmed the company was offering total compensation packages in the range of 200 to 250 percent, but declined to comment further.

In the end, Willis doesn't think that matching unvested deferred compensation will replace the larger back-end compensation signings in years past, and thinks that in a few months, the firms' competition to land the best advisors will push compensation packages back up. "You're not going to get what you want at 250 [percent]," he said.