

WHITE PAPER

Next: The Wealth Management Firm of the Future

Structuring Compensation and Benefits for Growth and Retention



Paying and Rewarding Human Capital

Attracting and retaining the human resources that advisory firms require has become an increasingly daunting challenge. While finding superior talent was never easy, today’s pressing need for advisors and staff, as well as the new normal of semi- and fully-remote-work options, has created a war for talent that often finds firms competing against others nationally for candidates. How has this more competitive environment affected compensation and benefits?

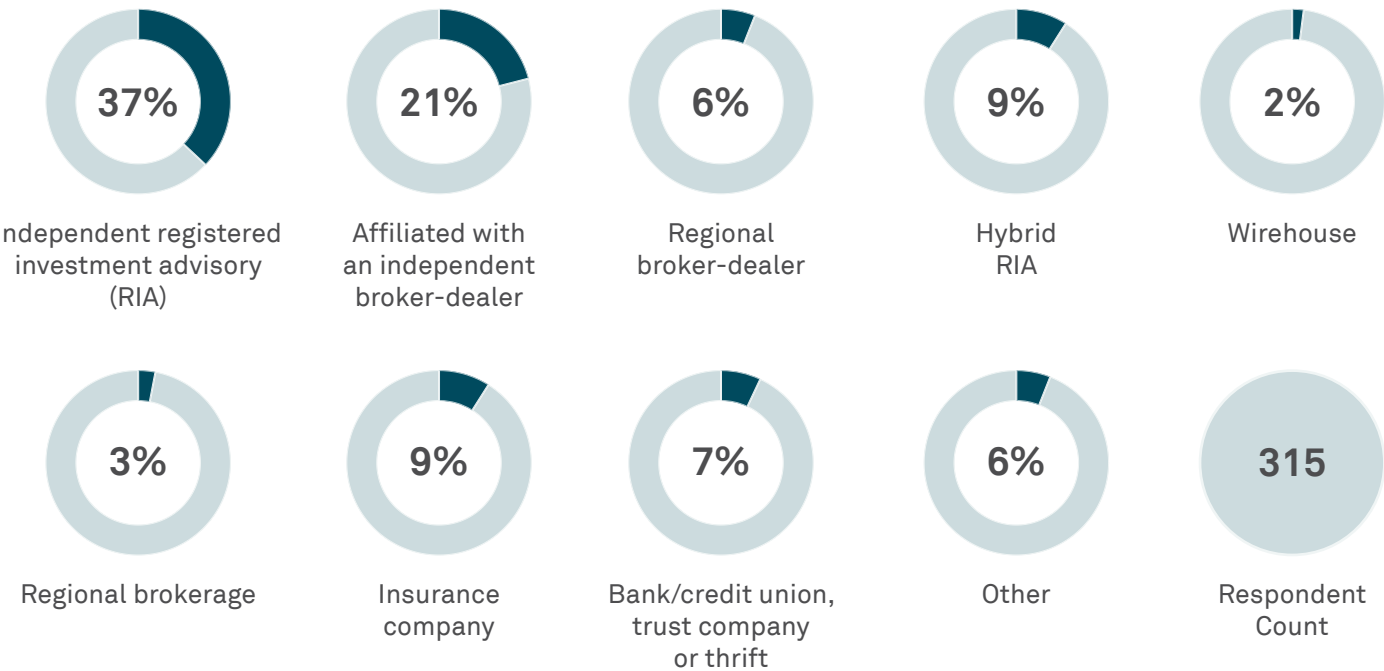
To find out, Wealth Management IQ in partnership with BNY Mellon | Pershing, conducted a survey of advisors exploring where their firms stand now regarding compensation and

benefits and what they see coming in 2023. This white paper is based on the results of that research and is the latest in a series focusing on the future of the wealth management business. Previous white papers have touched on growth projections, the specific job functions wealth management firms will be seeking to fill, the services that will be most in demand over the next five years, and technology and marketing. The findings of all the studies are intended to inform the decision-making of wealth management firm leaders.

A closer look at the study’s findings and their implications are presented in the following pages.

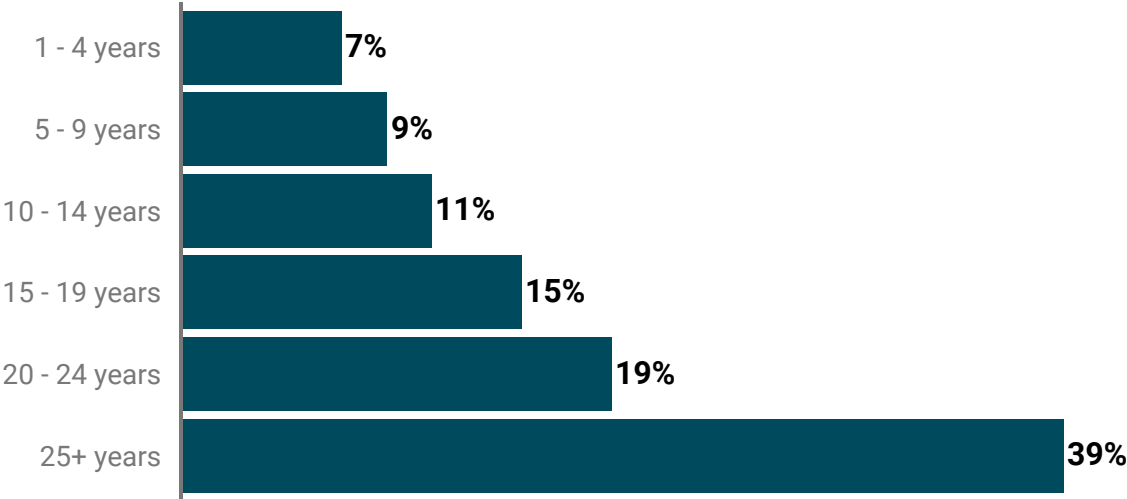
The Study at a Glance

Respondent's Firm Type

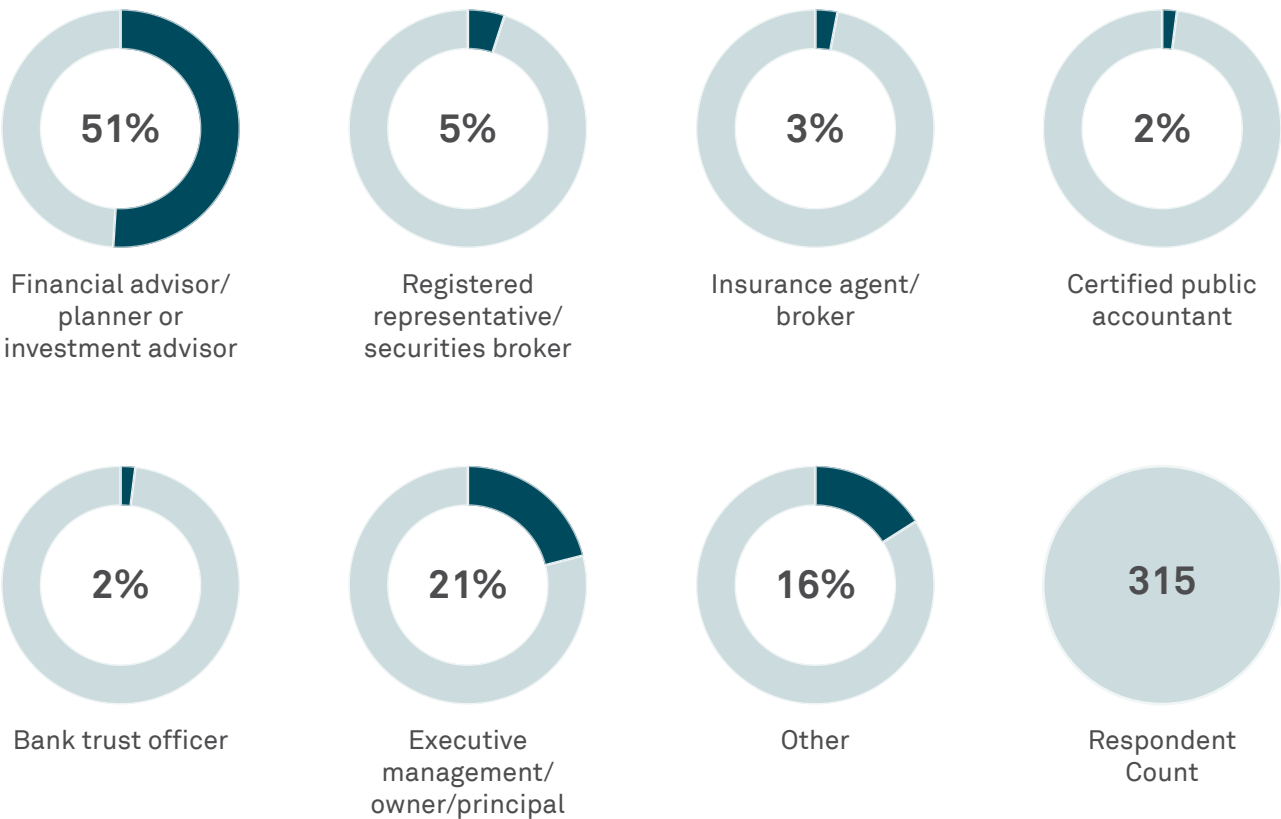


The Study at a Glance

Tenure as a Financial Services Professional



Respondent's Job Function



The Composition of Compensation

Compensation structures at wealth management firms are shaped in large measure by job function and firm type. At registered investment advisory (RIA) firms, the single most-common form of employee compensation (cited by 41% of respondents) is a salary plus a discretionary bonus, followed by a salary plus a share of firm profits (31%); another 22% are paid a salary plus an incentive for business development. At independent broker-dealers, 56% of respondents said they were paid a combination of commissions and fees for assets under management, a form of compensation that by far dominated all others.

Part of the reason for that breakdown stems from the fact that 56% of the survey's respondents described themselves as a financial advisor/planner, investment advisor, registered

representative or securities broker. Advisors at pure RIA firms, which do not receive commissions, therefore must be compensated in some other way. Advisors working for brokerage firms, of course, do receive commissions, although an increasing portion of their compensation in recent years has come in the form of asset-based fees, which is reflected in the survey data.

Almost one-fifth – **19%** – of respondents at RIA and dually registered firms earned **\$500,000** or more in 2022.

How Respondents Are Compensated

	Total	Primary Role		Firm Type		
		Financial or Investment Advisor	Owner, Principal, Exec Mgmt	RIAs & Dually Registered	IBD	Wirehouses & Regional Firms
Salary only	11%	Salary only	5%	9%	9%	14%
Salary plus discretionary bonus	32%	Salary plus discretionary bonus	52%	41%	8%	50%
Salary plus profit-sharing	19%	Salary plus profit-sharing	42%	31%	3%	18%
Percentage of AUM fees only	0%	Percentage of AUM fees only	-	-	2%	-
Commissions only	4%	Commissions only	-	1%	6%	9%
Combination of AUM fees and commissions	20%	Combination of AUM fees and commissions	-	7%	56%	-
Combination of AUM fees, commissions, profit-sharing or bonus	5%	Combination of AUM fees, commissions, profit-sharing or bonus	-	3%	9%	14%
Salary plus incentive for business development	19%	Salary plus incentive for business development	24%	22%	6%	14%
Total	284	Total	66	137	64	22

The second largest group of respondents (21%) identified themselves as executive managers of their firms, principals or owners. Regardless of whether these high-level managers and owners are at RIA firms or at broker-dealers, their compensation tends to be like other executives and owners of businesses generally, that is, a combination of salary, bonuses, profit-

sharing and performance-based incentives. Among executives and owners, a salary plus discretionary bonus was the single most popular form of compensation, with 53% of owners/firm executives receiving between half and three-quarters of their bonus based on their individual performance. difference among the major firm types in the roles they added.

Percentage of discretionary bonus compensation based on individual performance

	Total	Primary Role		Firm Type		
		Financial or Investment Advisor	Owner, Principal, Exec Mgmt	RIAs & Dually Registered	IBD	Wirehouses & Regional Firms
None (0%)	20%	28%	18%	18%	60%	20%
Less than 25%	3%	-	3%	4%	-	10%
25% - 49%	10%	8%	12%	11%	-	20%
50% - 74%	47%	36%	53%	46%	40%	40%
75% - 99%	8%	12%	9%	11%	-	-
100%	12%	16%	6%	11%	-	10%
Mean	46%	48%	44%	48%	20%	37%
Median	50%	50%	50%	50%	0%	40%
Respondent Count	86	25	34	56	5	10

Percentage of discretionary bonus compensation based on firm's overall performance

	Total	Primary Role		Firm Type		
		Financial or Investment Advisor	Owner, Principal, Exec Mgmt	RIAs & Dually Registered	IBD	Wirehouses & Regional Firms
None (0%)	23%	36%	12%	18%	20%	30%
Less than 25%	13%	12%	12%	14%	-	-
25% - 49%	14%	12%	21%	13%	20%	20%
50% - 74%	29%	20%	29%	34%	20%	20%
75% - 99%	7%	-	12%	7%	-	20%
100%	14%	20%	15%	14%	40%	10%
Mean	40%	36%	47%	43%	55%	42%
Median	45%	25%	50%	50%	50%	45%
Respondent Count	86	25	34	56	5	10

Finally, the 16% of respondents who described their job category as “other,” essentially neither advisory nor executive in nature, largely are employed in administrative, operations and support functions. They typically are compensated through salary plus bonus.

In terms of overall compensation, those in the RIA channel and those dually registered fared best, earning mean compensation of \$268,056 in 2022, followed by those at wirehouses and regional firms, who earned a mean of \$245,455, and those at independent broker-dealers who earned an average of \$234,328.

Questions of Ownership and Benefits

The possibility of an employee obtaining an equity stake in a wealth management firm is often a function of firm type. Few wealth management firms, aside from wirehouses and regional brokerages, are public corporations or units of

one. Most are privately owned. Moreover, opportunities for ownership may be limited. Just 15% of respondents at RIA/dually registered firms, 2% at independent broker-dealers and 31% at wirehouses/regional firms said they participated in a company employee stock-option or stock-purchase plan. In fact, 76% of survey respondents at RIA/dually registered firms and 92% of those at independent broker-dealers said that none of their compensation consists of stock options or from participation in an employee stock purchase plan because their firm doesn’t offer those options. At wirehouses/regional firms, 47% of respondents said none of their compensation came in the form of stock options or stock-purchase plan participation.

While partnerships are a more common form of ownership among smaller wealth management firms, opportunities to acquire a partnership stake also are rather limited, with 46% of

Respondents’ total compensation in 2022

	Total	Primary Role		Firm Type		
		Financial or Investment Advisor	Owner, Principal, Exec Mgmt	RIAs & Dually Registered	IBD	Wirehouses & Regional Firms
Under \$50,000	5%	4%	4%	6%	4%	3%
\$50,000 to \$99,000	16%	18%	4%	11%	19%	21%
\$100,000 to \$149,000	19%	18%	15%	16%	21%	18%
\$150,000 to \$199,000	14%	14%	9%	16%	15%	18%
\$200,000 to \$299,000	14%	13%	19%	15%	13%	9%
\$300,000 to \$399,000	8%	7%	16%	10%	6%	3%
\$400,000 to \$499,000	6%	7%	4%	8%	3%	9%
\$500,000+	17%	19%	27%	19%	18%	18%
Mean	\$248,492	\$255,401	\$312,687	\$268,056	\$234,328	\$245,455
Median	\$175,000	\$175,000	\$250,000	\$250,000	\$175,000	\$175,000
Respondent Count	315	162	67	144	67	33

those at RIA/hybrid firms, 81% at IBDs and 59% at wirehouses/regionals saying their firm does not offer a route to partnership. A similar 58% of those at RIAs/hybrids, 87% at IBDs and 63% at wirehouses/regionals said their firm offered no road to ownership of any kind. For those working at firms that do offer partnership or ownership possibilities, the most-frequently cited tenure required to qualify is five-plus years, which was noted by 51% of those at RIA/hybrid firms, 67% at IBDs and 33% at wirehouses/regional firms. When asked whether a partnership stake requires an additional investment, 61% of those at RIA/hybrid firms, 58% at IBDs and 23% at wirehouses/regional firms said that it did.

In the area of benefits, RIA and dually registered firms tended to be more generous with employee benefits than other firm types. For example, 64% of the firms provide paid maternity leave, compared with 41% of independent brokerage firms.

Similarly, 83% of RIA firms offer a 401(k) plan, while just 70% and 79%, respectively, of IBD and wirehouses/regional firms provide those plans.



While **52%** of respondents were eligible for **four weeks** of vacation in 2002, just **25%** took that much time off.

Jobs Added in 2022

	Total	Firm Type		
		RIAs & Dually Registered	IBD	Wirehouses & Regional Firms
Paid maternity leave	57%	64%	41%	59%
Paid paternity leave	44%	46%	30%	45%
Unpaid maternity leave	17%	16%	14%	10%
Unpaid paternity leave	15%	16%	8%	10%
Paid sick time	59%	64%	57%	62%
Paid vacation/PTO	72%	79%	65%	72%
Paid time off for professional education	34%	40%	35%	24%
Education reimbursement	56%	53%	54%	41%
Industry Conference and Membership Allowance	51%	60%	51%	24%
Commuting / Rideshare Reimbursement	11%	9%	8%	17%
Sabbaticals	8%	9%	3%	3%
Medical insurance	80%	77%	68%	93%
Dental insurance	70%	65%	62%	79%
401(k) plan	79%	83%	70%	79%
Other	13%	13%	19%	10%
Total	261	129	37	29

Takeaways and Suggestions



Reflecting the findings of earlier studies, wealth management firms are struggling with a tight labor market and looking for ways to find the talent they need. Compensation is likely to become an even more important factor in firm efforts to attract and retain much needed staff at all levels.



Since bonuses play a significant role in total compensation in many cases, greater transparency and communication about how bonuses are determined and how significant they can be are likely to serve as a motivator to current employees as well as a way to attract candidates.



Firms should consider expanding the possibility of ownership as a way to attract and retain advisors and other personnel who are seeking a long-term commitment and an opportunity to build wealth.



Those firms that provide generous benefits should highlight those in their recruitment efforts to distinguish themselves from competitors and to attract those who may have find particular benefits especially helpful.

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OVERVIEW

Methodology, data collection and analysis by Wealth Management IQ on behalf of BNY Mellon|Pershing. Data collected January 26, 2023 through February 16, 2023. Methodology conforms to accepted marketing research methods, practices, and procedures.

METHODOLOGY

Beginning on January 26, 2023, Wealth Management IQ emailed invitations to participate in an online survey to active users. By February 16, 2023, Wealth Management IQ had received 315 completed responses.

RESPONSE MOTIVATION

To encourage prompt response and increase the response rate overall, a live link to the survey was included in the email invitation to route respondents directly to the inline survey. The invitations and survey were branded with the WealthManagement.com name and logo in an effort to capitalize on user affinity for this valued brand. Each respondent was able to enter a drawing for a YETI Tundra 75 cooler, valued at \$450.