Merrill compensation changes ‘very advisor friendly’

Industry experts give their verdict on the wirehouse’s decision to replace its ‘growth grid’ with a ‘growth award.'

- By Josh Welsh
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Replacing the stick with a carrot will be a welcome change for many Merrill Lynch advisors, a prominent industry recruiter said, but the bank’s decision to change its compensation structure drew a mixed response from other experts.

On Tuesday, Merrill Lynch Wealth Management announced it was ending two contentious policies as part of its 2024 brokerage compensation plan. First, it will eliminate its five-year-old growth grid, which rewarded brokers for adding clients and accounts but penalized those who did not grow. A common complaint was that this meant less time spent working with existing customers. Second, it will also eliminate a policy, brought in only this year, that reduced brokers’ credit for transactions, hurting some reps’ commissions.

Instead, Merrill is introducing a “growth award,” which will pay up to 12 basis points on net flows up to $50 million and three basis points beyond that. To qualify, however, advisors must attract three new client households with more than $500,000 in assets each, as well as boost their clients’ prior-year total assets and liabilities by 7.5%. This must be done with “net new strategic flows,” which includes investment advisory assets, bank loans and some brokerage.

According to a report by AdvisorHub quoting an unnamed Merrill Lynch executive, about 25% of the firm’s advisors are in line to qualify.

Danny Sarch, president of Leitner Sarch Consultants and a veteran industry recruiter, said that some Merrill advisors are annoyed because they’re losing money while certain people are happy, but that it was clear the “growth plan” was not working out.

“[It incentivized] advisors to bring in new assets. And it worked. They brought in a lot more assets,” Sarch said. “But for the first time, they penalized advisors who did not, essentially, raise enough money or bring in new money.”

Another recruiter, Jason Diamond, vice president and senior consultant at Diamond Consultants, believes that the removal of that penalty is overdue and that it will be broadly welcomed.

“The changes this year were quite advisor friendly, certainly relative to years past,” he said. “The growth grid was wildly unpopular so changing from the stick to the carrot was a welcome change for many. The rollback on the brokerage commission thing was also a welcome change.

“It’s not growth for growth’s sake, it’s not mandated,” Diamond added. “It just gives [advisors] more autonomy and control. I think most advisors, at least successful ones, are self-starters, self-motivated anyway. You have to be because it’s an eat-what-you-kill job.”

Sarch said he always disliked that the “growth award” failed to distinguish between how the assets left or how the assets were brought in and that, ideally, it would have kept the incentives for “winning” without some of the sticks for “losing.”

“They would not have angered some of their best performers and they would have certainly made the people who weren’t regularly getting that bonus feel better,” he said.

There will be advisors, however, who are still unhappy with the new compensation plan. For them, Sarch offers some stark advice. “If you’re tired of having your payout tinkered with every year, you shouldn’t be with a big firm like this. You should be somewhere else.”

Many have made that switch, leaving big broker-dealers and heading for the RIA space. Chuck Failla, principal at RIA Sovereign Financial Group, sees little incentive for advisors at all in the new Merrill compensation plan.

“They’re tying compensation even to the level of loans you sell your clients,” he said. “I really don’t like the idea of being compensated to put my clients more into debt.

“I can’t imagine if I had an incentive for my advisors as an RIA, ‘Hey, I’m gonna pay you guys more if you start pushing loans,’” Failla added. “I don’t think the SEC would like that very much … If they’re going to use financial incentives to grow, I don’t have a big problem with that. My problem lies when there’s a financial incentive tied to this product versus that product. And I really have an issue with financial incentives for pushing loans.”