# 2018 ADVISOR COMPENSATION STUDY

"The more things change, the more they stay the same."

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## About this Study

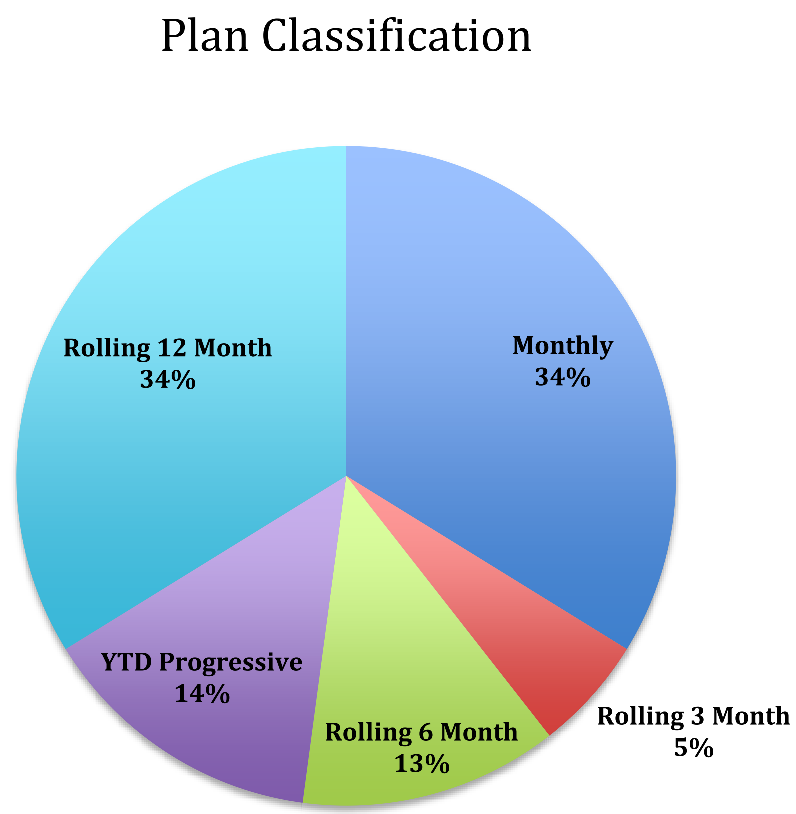
Thank you for purchasing the Kehrer Bielan 2018 Advisor Compensation Study. The detail provided in this report outlines key trends and developments in the current Financial Advisor compensation environment. Included in this year's analysis are relevant compensation metrics from over fifty partner banks and credit unions, with an emphasis placed on the largest firms in the industry. There are three main themes to this study: compensation grid levels, special incentives and alternative plan designs. The analytical focus towards larger firms allows for a more accurate representation of the grid levels Financial Advisors are most commonly affected by, encompassing data impacting a greater number of Advisors and from various geographical markets. We have seen that larger firms are primarily dictating the changes observed in the compensation market, leveraging their wider bases of Advisors to more heavily influence special incentives aimed at driving Advisor behavior. While smaller firms have had some success in bringing disruptive incentives to market, their influence is limited by their modest sizes, making research like this all the more critical in promoting best practices. The departure from the standard "grid" methodology of Advisor compensation is something that many firms have invested significant resources into achieving. This shift deployed by a select group of firms will be evidenced in detail by the third theme of this report, which will outline some of the plans that firms have introduced as alternatives to their previous methods.

In order to most accurately reflect the shifting dynamics of the Financial Advisor compensation market, we first selected banks with in-house broker/dealers, and then added to our database organizations displaying well-developed plans who employ third party brokers. All told, the study details seventy-plus unique plans from over fifty of the largest firms employing the most Advisors. As in past studies, we reviewed each plan document in detail. In almost all cases, we received the plan from the firm's executive management, but in the few cases we felt it necessary to include a firm with no direct management source, we deferred to other industry sources. A detailed listing and analysis of each of the plans is presented in the accompanying 2018 Grid Data spreadsheet.

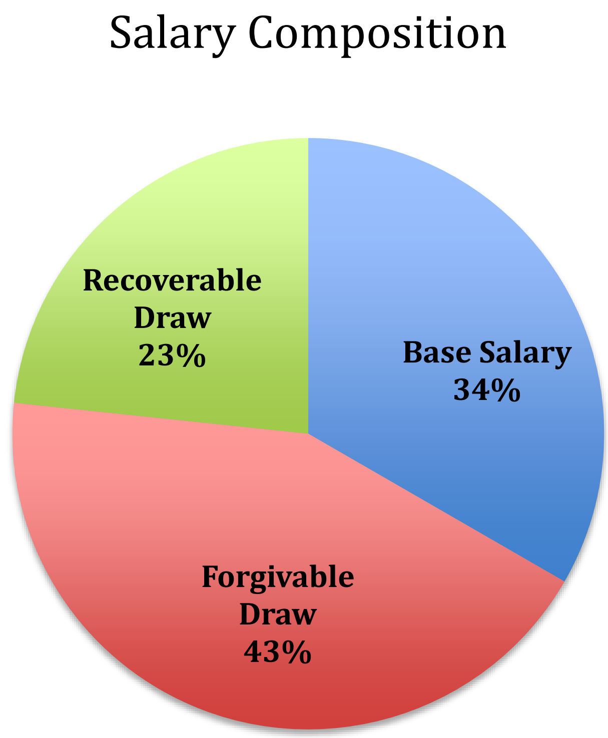
## Executive Summary

- Compensation plans using multiple months to compute the current payout, and a form of salary or guaranteed draw are by far the most prevalent compensation structures.
- Based on the steepness of the grid, it seems $500,000 in annual production is the threshold that firms see as a desirable level of business
- Monthly plans have a much higher payouts on the lower end of production for the majority of Advisors than rolling six or twelve-month plans do.
- There is a very natural compensation progression in the Senior Advisor role, bridging the gap from branch based Advisor to Independent Advisor.
- There has been a noticeable long-term reduction in compensation for Advisors producing under $600,000, but compensation for this group was up slightly in the last three years.
- We've identified six common special incentives, and firms are putting significant incremental financial resources behind them.
- Meeting and utilizing special incentives can increase grid levels by up to 15% and move Advisors to effective compensation levels at or above 55%.
- Alternative compensation plans departing from the standard base compensation model and grid payout structures are moving from discussion to reality for a small group of firms.
- The stakes are high in implementing the right changes, at the right pace, for the right reasons, with the right expectations to make alternative plans work.

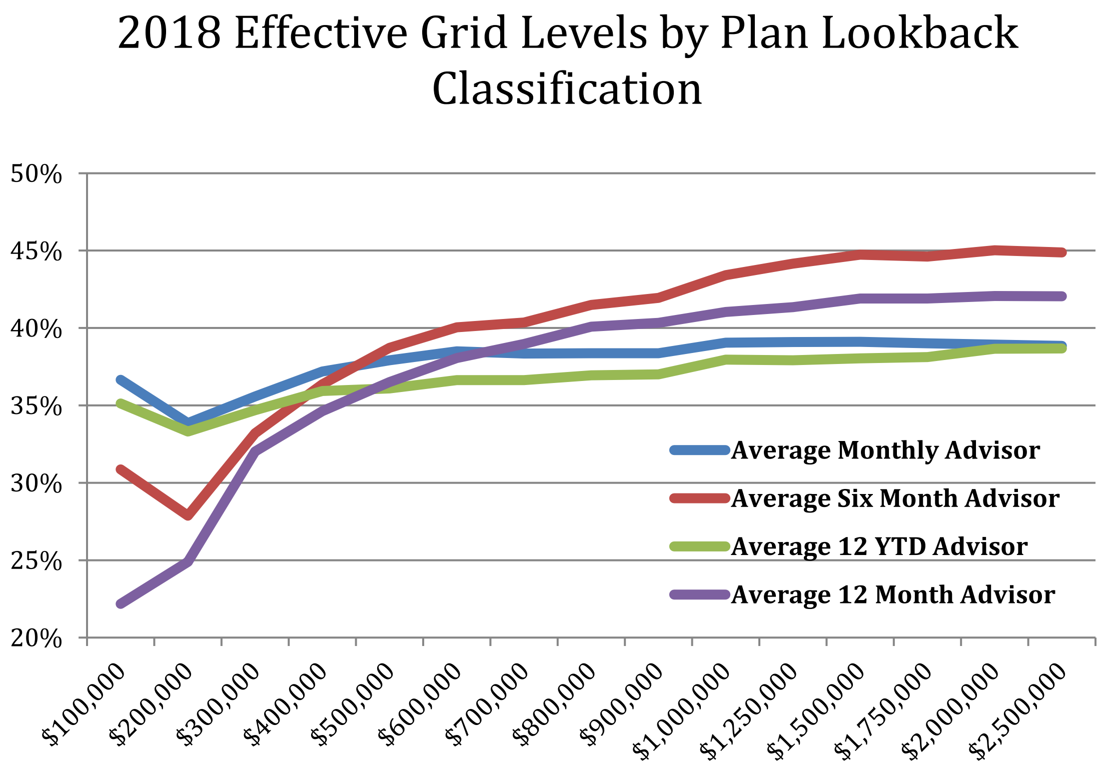
## Plan Classification by Lookback Calculation




Of the various methods used to determine the production and corresponding grid performance for Advisors, the two most popularly used are monthly and rolling twelve month lookbacks, constituting almost 70% of all plans. The rolling twelve month lookback has experienced a marked increase in use, up from 19% in 2015. Three month, six month and year-to-date progressive plans have all experienced comparable amounts of relative reduction in use during this timeframe. Multi-month plans still dominate over single month, as the rolling term and year-to-date methods smooth out grid placement by averaging multiple months of production. We continue to expect year-to-date calculations to lose popularity amongst multi-month plans, as rolling average plans present all the benefits of the year-to-date plans without the calendar year reset drawback. We recommend firms move away from a monthly plan as firms look to reduce exposure to the perceived potential suitability risk of business written at the end of the production month to boost payouts. Additionally, the desire to smooth out expenses to better predict a firm's net income, along with the desire for Advisors to earn incentives based on their cumulative contribution (instead of a one-month bounty) will further move firms away from monthly lookbacks.

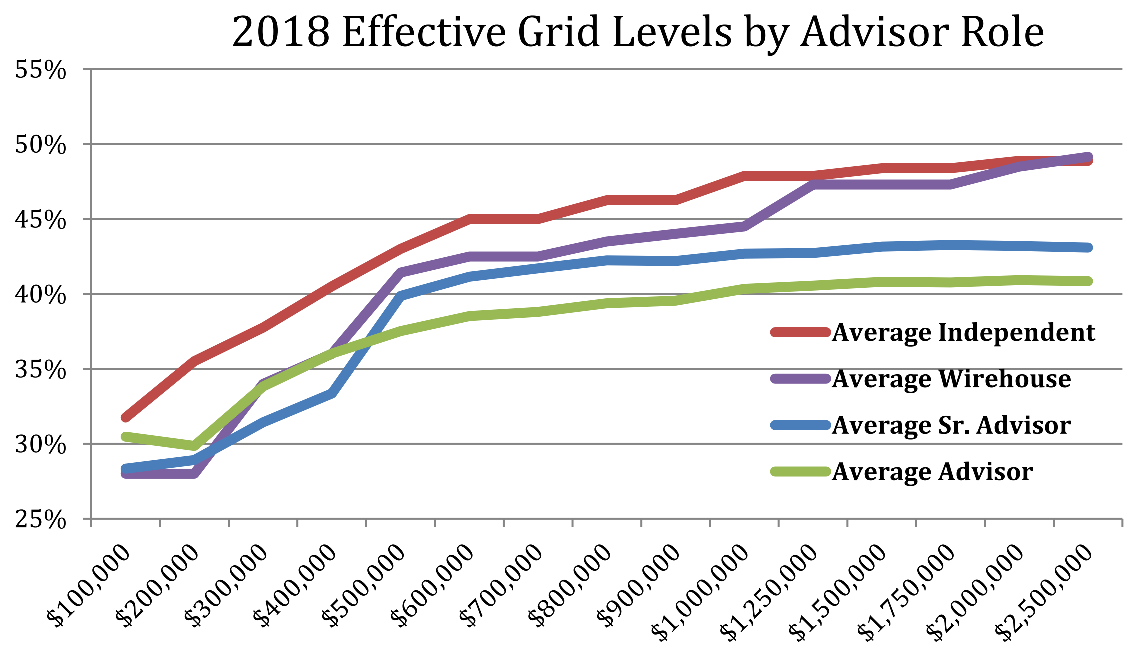



Although forgivable draw is the standout, the base compensation component of the analyzed plans are not overwhelmingly concentrated to a single approach. Actual salary amounts have seen moderate increases from prior year' studies ($30,000 annual is the median, up from $25,000 in 2015), but remain modest relative to total compensation amongst Advisors, indicating that the salary is not meant to be the primary compensation driver. Rather, it seems to be a response to Fair Labor Standards Act and individual state regulation to help firms protect themselves from Advisors being classified as non-exempt employees. Due to proposed changes at the individual state levels which could potentially affect the requirements for attaining an exempt status, Advisor salary may continue to increase so that these employees retain exemption. As the regulation evolves, we will update our opinion. We also question the benefit of the recoverable draw approach (utilized by nearly one quarter of all firms) due to the fact that typically the size of the draw paid and at-risk is quite modest, recovering the draw is difficult and many times abandoned, and the lack of an income "guarantee" increases the risk of an employee being classified as non-exempt. Instead, opt for a forgivable draw and hire individuals to foster an environment where Advisors rarely fall below a threshold where recovery would be necessary.



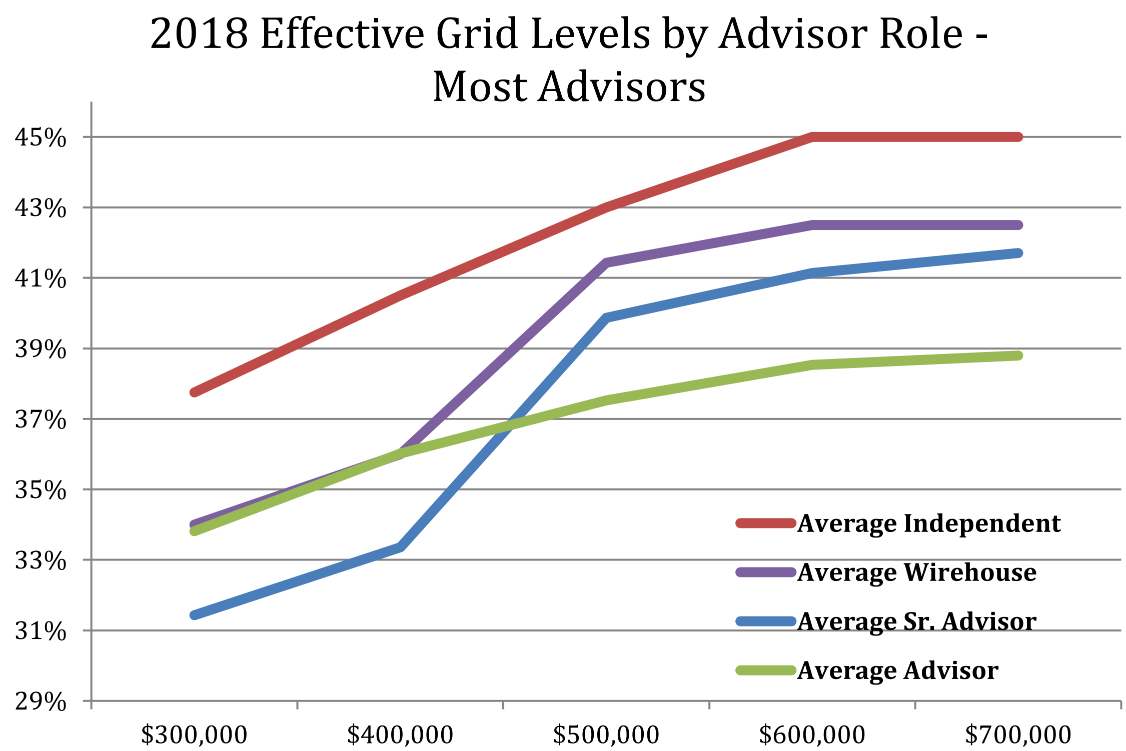

In the analysis provided above, average effective payout by plan lookback classification type is observed at different production levels. Effective payout is the sum of grid payout and any base salary, expressed as a percentage of production. This calculation reflects the Advisor's total cash earnings excluding special incentives and benefits. It is apparent that base salaries bolster most payouts on the low-end of production. This is most clearly seen for the monthly Advisor, whose effective payout at lower production levels has increased notably since 2015, consistent with the increase in popularity of base salaries. However, this bolstering effect is not observed in the rolling 12-month plan, as firms can eliminate high grid values at low production levels when a longer time period is considered when calculating production. The high grid values at lower production levels are not necessary, as the rolling 12-month calculation protects Advisors from isolated months of poor performance. In contrast, monthly plans typically display rapidly-escalating or high initial grid rates due to frequently resetting production amounts. This resetting commonly results in inconsistent month-to-month Advisor production. To remain competitive, firms using the monthly lookback method commonly address these inconsistencies by paying higher percentages at lower production thresholds. Many times this leads to a volatile change in grid placement with good months getting all possible business added in that month to benefit from the high rate, and suppressing business in poor months by delaying it to a potentially better month. Finally, twelve-month plans have the lowest effective payout rate for all classifications and annualized production levels below $500K.

## Grid Level Analysis by Advisor Role



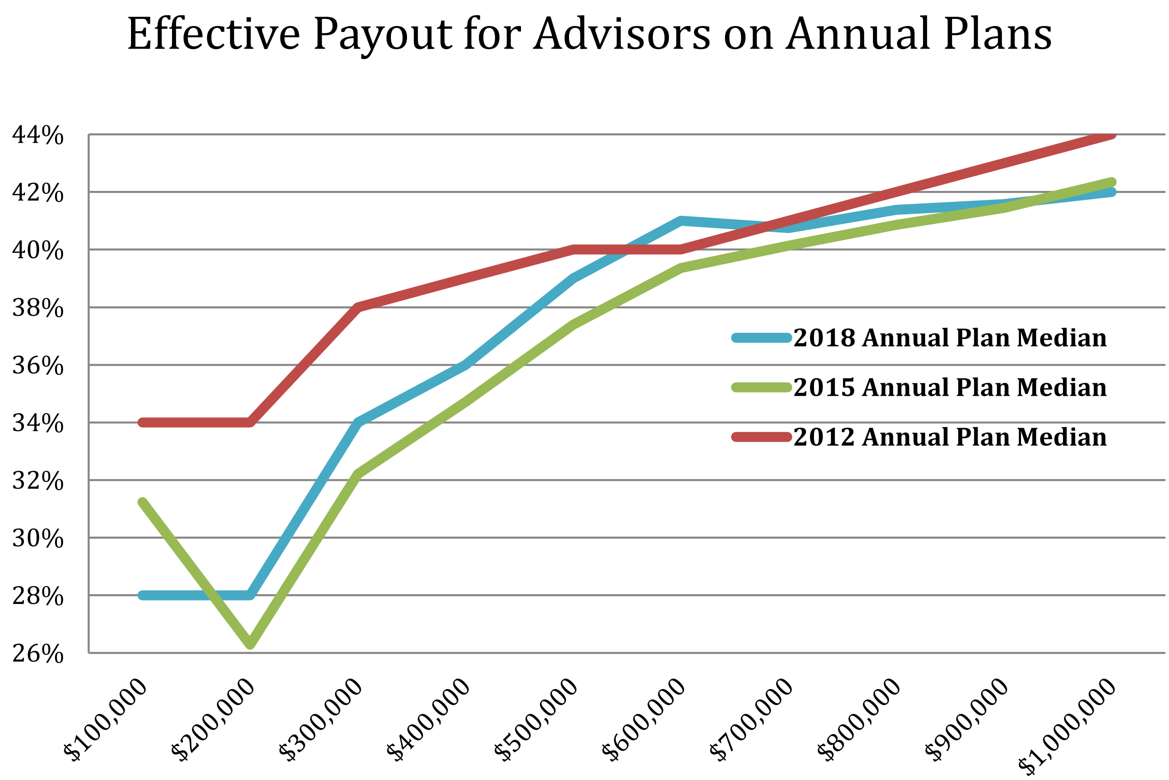

When comparing Sr. Advisor vs. Advisor payouts, it can be seen that starting at $500K in production the Sr. Advisor begins to have a higher effective payout than the Advisor. Since the majority of firms require that Sr. Advisors achieve at least $500K in production to earn this position, only effective payout amounts above this amount should be used when considering the earnings of Sr. Advisors. The premium for a Sr. Advisor ranges from 2-3%, peaking at $700K-$800K in production, indicating the level at which firms believe it is most beneficial to incentivize Sr. Advisor production. This premium is also representative of the incremental value placed upon the Sr. Advisor in comparison to his or her less experienced counterpart. Second Story Advisors, or what we refer to in the research as Independent Advisors, experience a somewhat unique escalation in rates, with premiums being more significant at lower to mid-levels of production, reducing at over $500K in production. This indicates that even average levels of production are valuable to a firm when generated outside of the referral network, however there is clearly a maximum threshold at which firms are willing to pay for revenue (upper 40%'s), regardless of where the business originates.

Sr. Advisor and Wirehouse compensation rates generally move in lock-step until approximately $1MM, at which point Wirehouse rates increase dramatically, surpassing Independent Advisor rates at the ~$2MM mark. The $1MM mark is a logical place for Wirehouse rates to begin escalating, as this is roughly the average annual production level in this category. It should be noted however that in the past few years Independent Advisors have become the most-highly compensated employee type up to $2MM, as previously Wirehouse rates overtook Independent rates at $1MM. This displays the competitive pressure on retaining the highest producing incumbent Advisors and the consistent value firms place on externally sourced business as production increases.




A closer look at the production ranges of most Advisors better illustrates the implied value of referrals to a firm, as there is a consistent 7% difference between the Independent and Internal Advisors in this range. This is an increase from a historical gap of 5%. Access to a firm's referral network is valuable enough for Internal Advisors to overlook this pay discrepancy as they remain willing to work in comparable roles for lower payouts at higher production levels. Similarly, lower producing Advisors would be moved out of wire-houses or paid a flat lower rate. This referral network value can save a firm up to 7% in commission costs and should be directly additive to profit. While Wire-houses pay slightly less for Advisors than those in Independent roles, deferred and special incentives serve to bring their true payout to comparable levels.

**Yearly Changes in Rolling Average Plans**




In the past six years Advisor compensation among firms has been repeatedly restructured in an attempt to better retain/source experienced and consistently producing Advisors, and also to facilitate growth among new Advisors faced with an increasingly demanding industry. From 2012 to 2015, the Advisor compensation market largely introduced a fiscal penalization to Advisors producing under $600K, with a heavier emphasis being placed on compensating higher performing employees with established client bases and consistently strong production levels. In order to finance funding for top earners, margins on the lower end of production grids were severely compressed.

Since then, firms have continued to see higher than desired turnover in new entrants to the market, and as a result, have been forced to re-strategize and provide greater levels of support to their new employees. The increasing popularity of base salaries is symptomatic of this move towards a more gradual introduction of an Advisor into the market, providing them with the support and timing needed to grow their business to a satisfactory level. We can see this in 2018, as the harsh penalties for not reaching moderate levels of production are somewhat smoothed out by base salaries and draw payments, increasing effective payouts on the lower end of production. This period of guaranteed income is generally limited to a time of ~2 years, after which corrective action can be taken if production levels are not met. Please see: Ending Catch and Release: A New Era Recruiting Plan to Reel in Advisors [http://kehrerbielan.com/ending-catch-and-release-a-new-era-recruiting-plan-to-reel-in-advisors](http://kehrerbielan.com/ending-catch-and-release-a-new-era-recruiting-plan-to-reel-in-advisors) for our Advisor new hire compensation plan recommendations.

**Ideas and Observations on Plan Design**

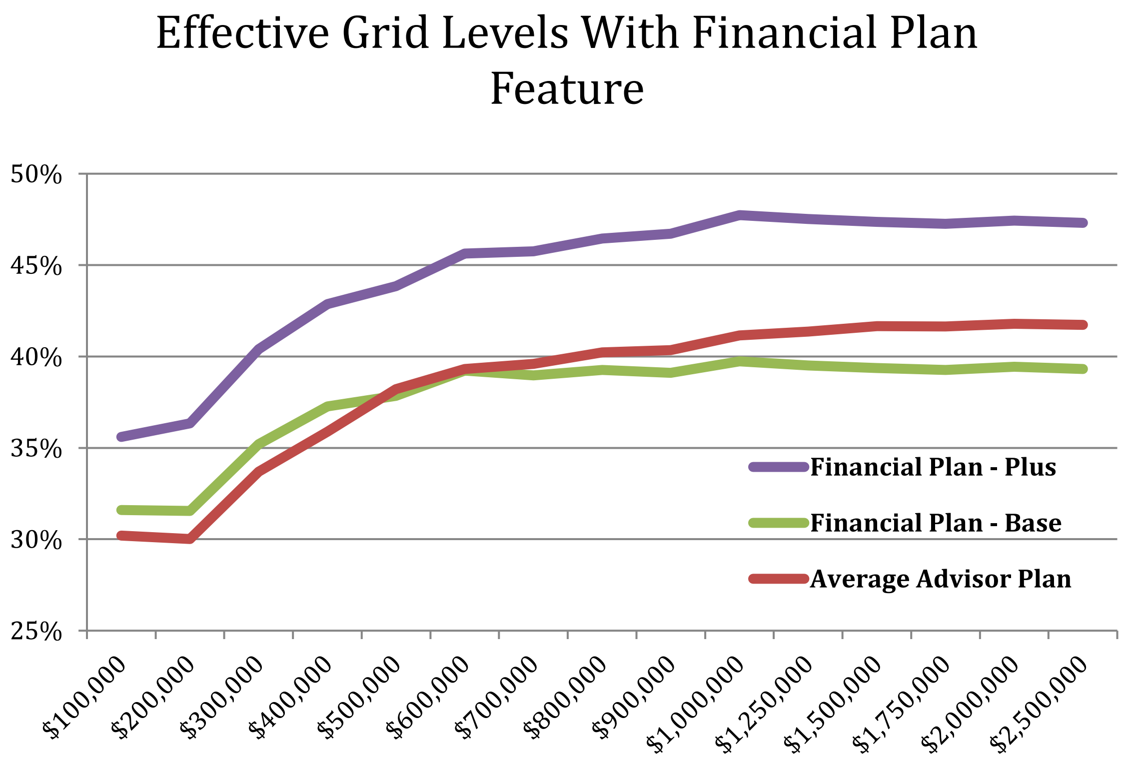
- There is still ambiguity around how some firms classify the guaranteed amount. One firm calls it a "salary draw". Make sure the "guaranteed earnings" meet the federal and state FSLA requirements so the Advisors remain exempt.
- There is an even greater lack of clarity around firms calculating commission on gross production or net production. This is demonstrated in the confusing manner by which gross and net commission are explained in some plans. For example one reads: "Advisor are paid on gross commissions." This seems clear until seeing the accompanying definition of gross commissions, written as "Gross commission is calculated net of clearing costs.", which happens to be the commonly accepted definition of net commission. There are great benefits to Advisors understanding their plans, with simplicity and transparency winning the day.
- It seems that firms with higher grid levels have higher producers. Or is it that firms that have higher producers have higher grid levels? Concerning uncertainty about which is the driver, it is evident that few firms have $1 million producers when the grid maxes out at $480,000 in production. Unless there is some reason that you do not want high producers, add aspirational grid levels well above your current highest producer.
- Some firms charge for Sales Assistants in the range of 1% for local and .5% for a centralized remote assistant. The best practices we have seen tie specific Advisor performance, like asset growth, to increasing levels of support.
- A technology charge in the $200/month range is levied on some Advisors.
- One of the more popular changes in 2018 concerns referral fees. Fifteen of seventy-one Advisor plans have some type of revenue sharing for a referral, and these referrals are not just referrals from Licensed Bankers but from all Bankers. The revenue reduction is typically 10 to 20 percent of the revenue, but can be as high as 30 basis points. This shows firms are recognizing the value of referrals, especially as they become scarcer.
- Most compensation plans are not marketing oriented. Formal documents are absent of firm objectives and logos, and miss the opportunity to woo the Advisor to become or remain a teammate. Few firms do a great job selling their story, even though most would never allow such a poorly designed piece to go from their Advisor to a client. They aren't sufficiently viewing the Advisor as a client in an area that the Advisor views as very important – their compensation. Firms need a greater awareness of Advisors as clients, and use this as an opportunity to re-recruit them, especially when talking about compensation.
- The overwhelming majority of plans offer either a quarterly or annual bonus payment (sometimes both) if production goals are met. These production goals are usually set on a case-by-case basis, and outline performance metrics related to new business generated, book mix, plans created, and a number of other performance related factors depending on the firm. The bonuses are usually paid in the form of an additional percentage applied to the grid, however in 2018 the distribution of stock incentives has become more prevalent. We continue to believe that too large of a percentage of total

compensation is tied only to production, and that this represents an ideal opportunity to tie this incentive reward to desired behavior activities.
- Some internal Advisors are offered an additional 7% grid increase for externally sourced funds. This concept is perfectly aligned with the premium we observe in grid payout rates for Independent Advisors compared to Advisors within a firm's network.

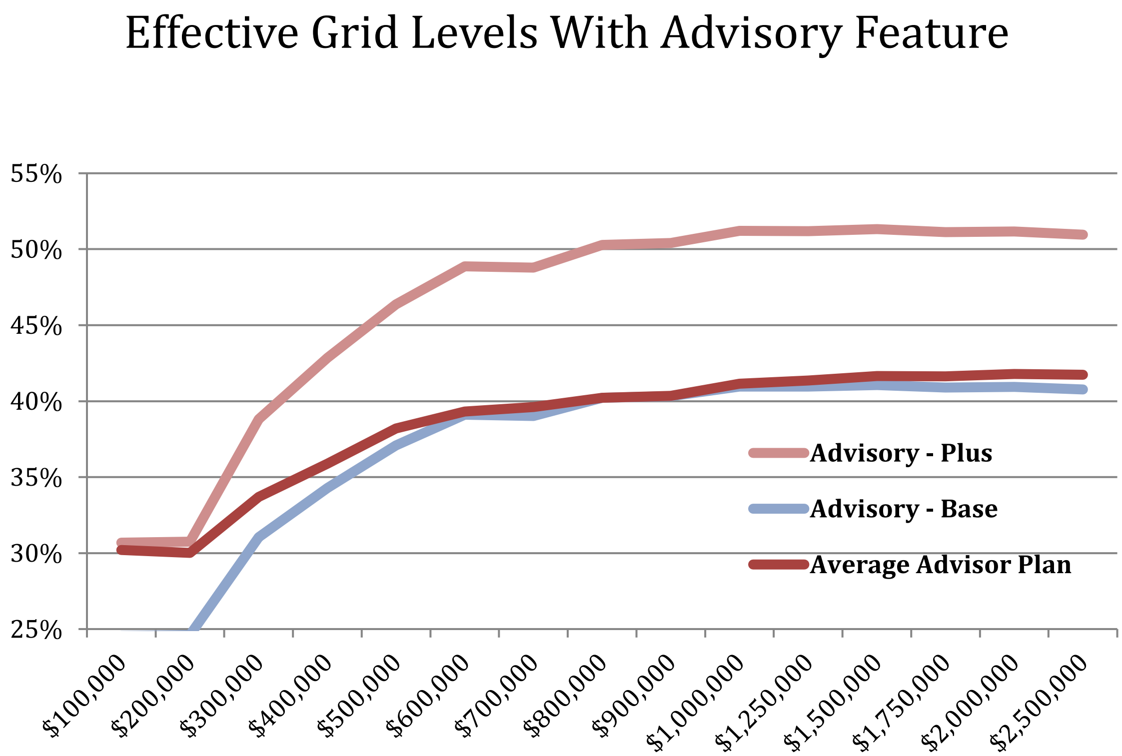
## Special Incentives

When analyzing current Financial Advisor compensation packages, six enhancement methods stood out. Four methods were tied directly to a performance-based activity, while two were used as retention tools. For each of the six enhancements observed, a composite plan was formed to accurately represent Advisor compensation where that particular type of incentive was utilized. To illustrate the value of the enhancement itself, the composite plan was compared against a version of itself with the special incentive removed. These plans are referred to "plus" and "base" plans respectively. The Industry Advisor Average has also been included to show how the individual plans compare to the industry, and provides some perspective for the base and plus payouts.

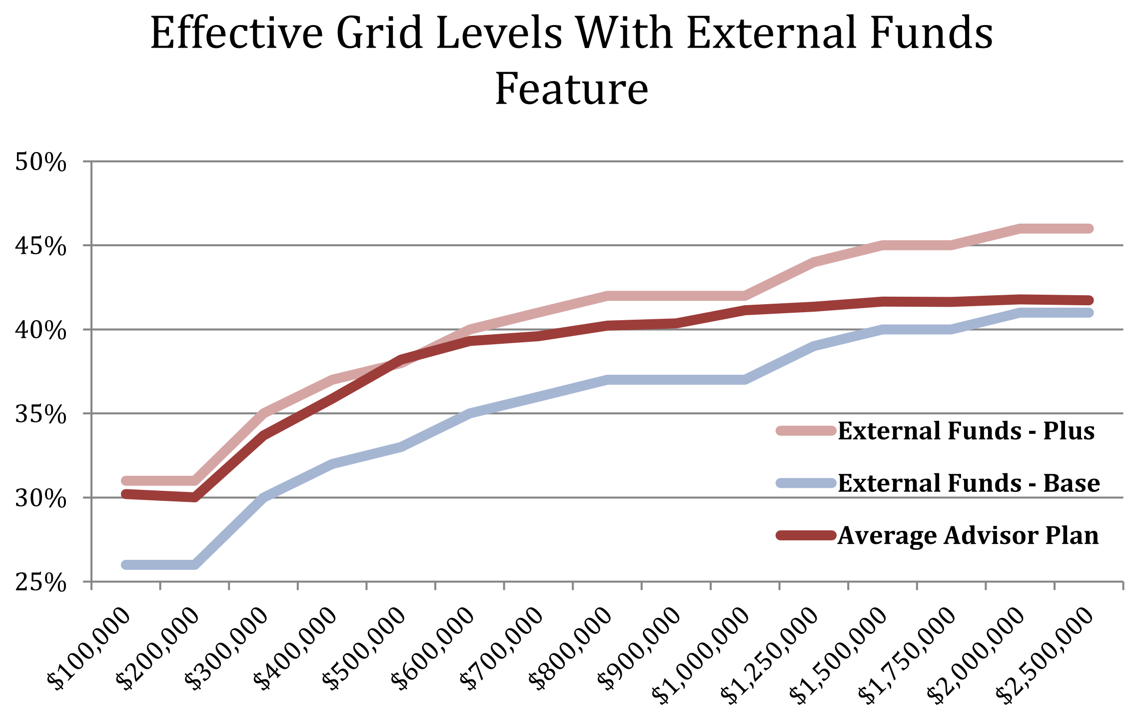
**Completion of Financial Plans**




In the plans observed which included a bonus for completing a certain number of financial plans, we saw on average a bonus of 4-8% of production added to preexisting grid values depending on production levels. While base compensation levels for contracts including a financial planning component were generally lower paying than the market average when the financial planning component was excluded, Financial Advisors who are able to take full advantage of these plan bonuses, especially at higher production levels, stand to earn significantly more than the average Advisor. Generally six to eight plans were required per quarter for these benefits to begin taking effect.



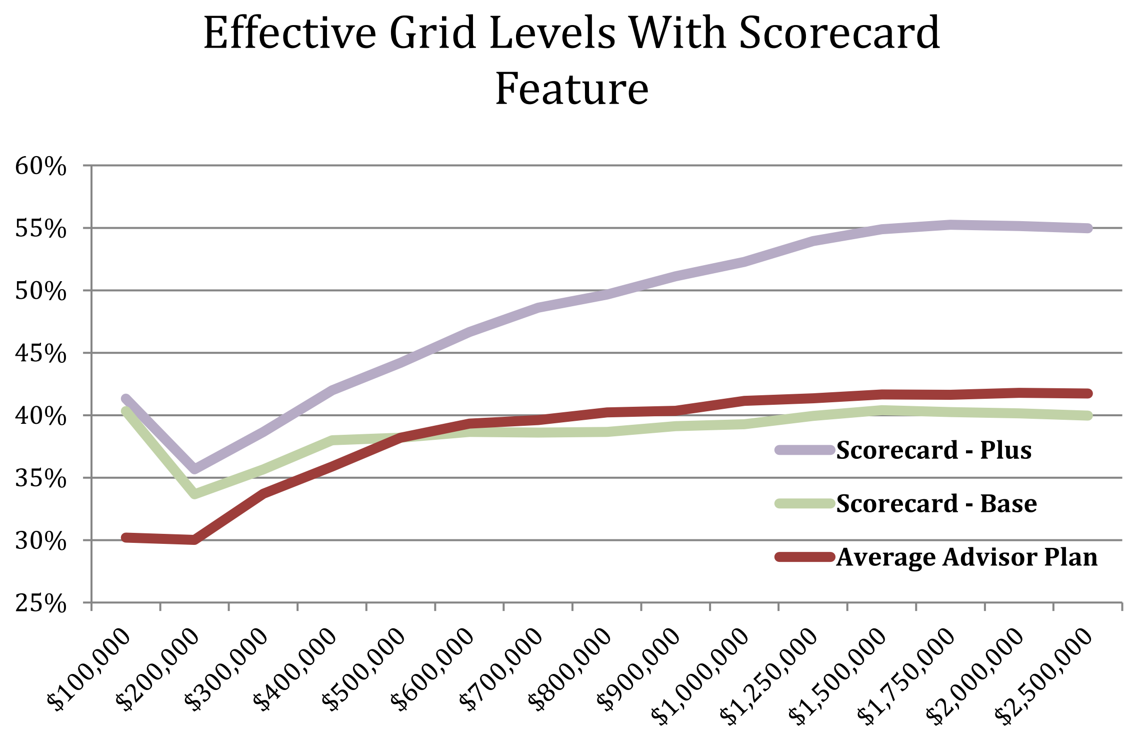

Advisors who meet the requirements for the incentive receive double the production credit for advisory revenue. To keep this applicable for what a majority of Advisors could expect to earn, we assumed new advisory production would be one-quarter of an Advisor's business. Advisors could expect a higher payout of 10 percentage points for producing one-quarter of their business in advisory, and payouts would reach 50% at ~$800,000.



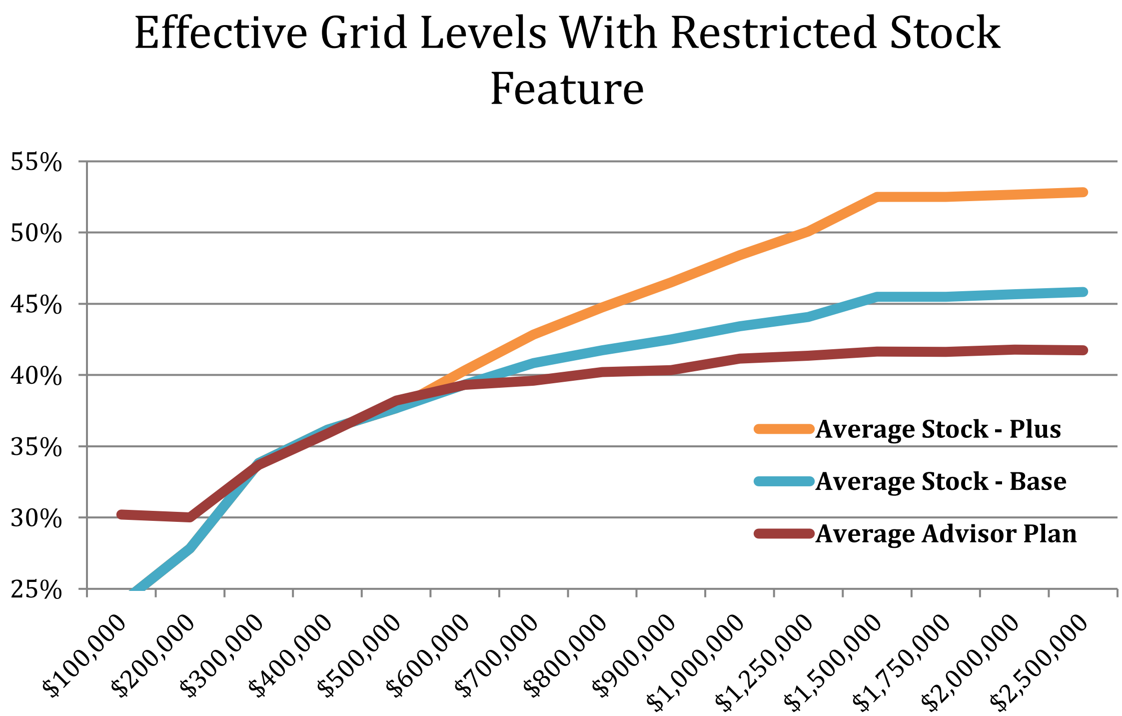

Advisors who qualify for their firm's external fund compensation incentives typically receive a 5% – 7% % boost to their grid levels. This increase in the pay structure of Advisors who are able to source external funds puts them more at par with the compensation figures of Independent Advisors, as Advisors who are able to source this outside business are consistently compensated more highly than the average Internal Advisor.

As the market continues to squeeze lower producing Advisors while placing additional value on high producing Advisors with an established set of clientele, Independent Advisors will continue to be very sought after. It is because of the demand for this type of Advisor that firms are now having to place a greater premium on externally sourced funds. If a higher producing Advisor does not feel they are being fairly compensated for the value of their network, the market is rife with opportunity for them to take their network elsewhere and receive an upfront payment, or as an Independent Advisor receive greater compensation for essentially the same role.

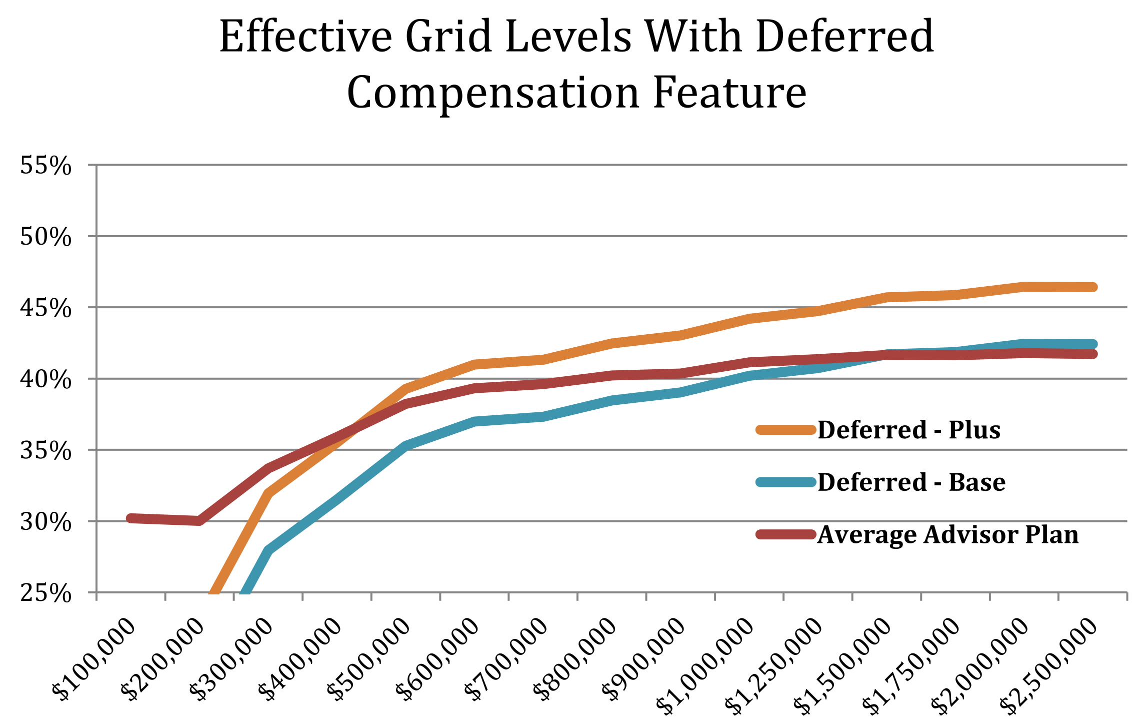
## Meeting Scorecard Targets




In the scorecard based compensation plans observed, multiple factors were included in bonus determinations, and were widely varied depending on the company's philosophy. It became apparent that firms were willing to highly compensate their employees for meeting customized Advisor goals aligned with their specific strategies. While Advisors not achieving their scorecard goals were generally paid less than average, Advisors who were able to reach their performance targets were very highly rewarded. The additional pay associated with meeting scorecard goals becomes very significant at higher levels of production (an additional 8% around $600K), eventually maxing out at ~13-15% for Advisors with over $1.0-1.5MM in production and meeting scorecard requirements. This shows a strong desire from firms to attract and retain Advisors who can consistently earn top levels of production that are also able to tailor their services to fit the specific needs of the organization.




Restricted stock was very commonly observed as a special incentive in 2018, and was paid out solely based on whether or not production thresholds are met. The base plan is comparable to the industry average except at very low production levels below $250K/year, and stock begins to be distributed at the $500K mark. After this production goal is met, stock distributions increasingly complement overall compensation, growing up to 7% of production at higher levels. Restricted stock comes with the standard benefits of equity leverage, ownership, and tying the Advisor to the greater good of the corporation. Standard drawbacks of stock are three year vesting, not being a cash equivalent, and the potential for market value deterioration. Given firms' desire to advance so many other corporate objectives like completing financial plans, increasing advisory business, and growing annual production in-line with annual firm goals, the restricted stock feature might do greater good if it was awarded for meeting those objectives directly, rather than simply adding it on to an already competitive production grid.




By paying deferred compensation in a formula including production, tenure, advisory business and completed financial plans, a firm can reward for what it deems important and leverage that by requiring an Advisor to wait a length of time to realize the benefit. The "plus" amount increases steadily up to a 5% premium as production rises, and is needed at lower production levels to make the plan competitive to the industry norm. The key is that the deferred compensation award is based on exactly what the firm views as its business drivers – production, retaining Advisors, increasing advisory business, and conducting financial plans; and rewards significantly more at meaningful production levels. Many deferred compensation plans include various payout features vesting over a period of 3-5 years.

## Plan Alternatives

The last time this report was published, it was noted that there was a significant amount of interest being shown by firms who wanted to implement different plan designs. A few examples of these alternative plan designs included paying an Advisor more similarly to the way a financial institution employee is paid (with a base salary plus a bonus), paying Advisors on a grid determined by assets, or paying the same basis point value on assets regardless of the underlying product. Because of the proposed DOL Fiduciary Rule, many firms had new plans designed and ready for implementation. With the rule being vacated, most firms kept their existing plan design so that they would have a competitive industry-standard plan and still retain their Advisors. Firms limited the impact that the new Fiduciary Rule had on their plan designs, choosing to implement only the ones that seemed most sensible to them. Some of these changes included reducing the amount of step-up in grid levels, removing retroactive thresholds, awarding the same grid credit for all like products, and averaging placement on the grid over a longer period of time than only the current month.

Even though regulation did not mandate a uniform change in Advisor compensation plans, many firms still elected to implement their new Advisor compensation models. Even the firms who chose to keep their “old” plans largely updated these contracts, taking cues from what their plans would have been in the new regulatory environment. Listed below are three examples of these changes.

Tenure Award: More firms are awarding long-time employees by increasing their grid percentages depending on years of service. We believe this is a sound compensation metric, as our past research has shown a high correlation between longer advisor tenure and higher production. This bonus is typically implemented by adding 1% after 5 years of employment, 2% after 10 years, and 3% after 15 years (or similar). We recommend an alternative approach for adding a few percentage points to the grid, one which helps resolve what is commonly a larger issue for firms – the difficulty for an Advisor to reduce their territory.

When an Advisor is initially assigned a territory, much of their business comes from referrals since they have a smaller book to generate business from. After some period of time, the Advisor’s book grows to the point where it provides a significant portion of revenue relative to referrals. However, it isn’t always easy to remove branches from an Advisors book once they have had access to them. The solution to this reduction in coverage is to change the Advisor’s grid based on the size of their new territory, with the ultimate goal of decreasing compensation for Advisors with large branch coverage and increasing compensation for Advisors with more limited coverage. This gives the Advisor a few options: receive the lower core grid rate and retain their territory, reduce their territory to receive an increased market grid, go to a single branch to receive a higher grid, or get removed from branch referrals altogether and receive the highest grid.

This approach opens up new branch territories to other Advisors with less resistance. Assuming the grid adjustment incentives reliably motivate Advisors to more willingly part with previously owned territories, Advisors retaining larger territories will be paid base grid rates slightly below market. This payment structure provides for the logical introduction of a compensation plan that incorporates a Branch Advisor, a Senior Advisor and an Independent Advisor, in such a way that promotes an important business objective. This can save costs on Advisors that have large territories and encourage Advisors to proactively shed branches, instead of hoarding them due to the way most plans are rewarded today.

Payment for Target Clients: Most plans are revenue based, treating all revenues identically regardless of its underlying client or product. This has led to a greater number of smaller accounts and relationships, many of which are unprofitable. The surprising number of accounts that firms are migrating to call centers is proof of this, and there have been few financial rewards for Advisors to attract larger client profiles. Paying Advisors lower grid amounts for standard clients, and increasing grid amounts for clients that the firm views as more desirable is a solution to this issue. Some examples of ideal clients can be ones with both a loan and deposit balance, a completed financial plan, and ones having purchased multiple investments products/services with an investment balance over a certain threshold, say $250,000. This will more effectively incentivize Advisors to target clients that a firm wants to identify with.

Grid Plus New Assets: With fee compression, digital offerings, and comprehensive planning all prevalent in the marketplace, it is all about growing assets as the path to success. Firms need to give Advisors a financial reason beyond the commission they generate to build their assets base. The solution should be to provide a standard yet slightly lower revenue grid, then pay additional basis points for acquiring revenue-producing assets, instead of moving completely to paying on new assets. This payment on gathering revenue producing assets should compensate for the grid reduction with the resulting benefit being greater focus on asset acquisition.

These plan alternatives, along with others, have been adopted by some industry leading firms. These changes can be significant enough to modify Advisor behavior, yet aren't so disruptive that they cause turnover. The key to successfully implementing a compensation change is its underlying message, degree, and timing.

## Delivering Alternative Plan Approaches

If a firm does not recognize evolution in the industry or adjust its plans to reflect its current business objectives, it is difficult to imagine how it will remain competitive. Some overall suggestions to consider when incorporating any plan changes are:

- Alignment is key. When working with a client in our consulting capacity, we often find a mismatch between what the business views as important and how compensation money is allocated. Most common among businesses is a desire for Advisors to participate in activities and behaviors beyond production, like financial planning, selling managed money, and providing referrals to the financial institution. Unless there is a commensurate financial reward, Advisors typically will not meet expectations and will instead underachieve. If a behavior isn't valuable enough to include in compensation, it likely isn't a true priority of the firm regardless what else is said about it. Equal alignment of financial rewards and business objectives is key to remedying this issue.
- Stratify your Advisors. Fortunately, the base and bonus model has lost some interest post DOL; firms implementing the model would be devastated by Advisors leaving for firms that have not. But that doesn't mean it is a bad idea for some Advisors. As seen in the 2018 effective grid levels, Advisors under $500,000 in annual production, especially those under $300,000, probably shouldn't be paid on the grid. The steepness of the slope for commission building to $500,000 has been created to remove costs from the lower end of the grid. In actuality, it is causing the wrong outcome because it is increasing the pressure on Advisors in those production levels to earn an income by producing commission based business. They are doing this instead of investing, profiling, planning, managed money, insurance, and relationships. As referenced in our other industry reports on the topic, this is a common negative outcome resulting from an overly intensive focus on profit margins. By implementing a base salary and bonus structure which awards Advisors in lower production levels for completing the activities a firm most desires, the firm has a much higher chance to develop an Advisor to the $500,000 production mark. An Advisor is also much more likely to remain at the firm if this method is used to encourage personal development. Advisors over the $500,000 production level can be paid commission since they have earned the privilege, and they should be paid that way for competitive purposes. The importance of financial planning in Advisor compensation has been discussed for years, however even presently many firms are not adequately tracking how many of their Advisor's clients have had their plans updated within the last three years. Those Advisors who do have their plan production tracked typically top out at roughly two plans per Advisor, per month. If the average firm had an investment services penetration of 4% of their households, and of that 4% each Advisor provided plans for an average of 24 clients (which is ½% of their households), .0002% of financial institution client households would receive a financial plan annually. At that rate, Advisors would not be adequately skilled or financially rewarded for their planning work. This lack of compensation occurs because it is so difficult to precisely assign revenue to the planning activity. Checking a box and paying for plans-completed is a false

positive for success. The goal shouldn't be for the Advisor to simply complete the plan, but for the knowledge, advice and relationship the plan can offer to be successfully delivered. The solution is to invest whatever necessary into developing a planning platform that can be measured, and is a focus for the firm and Advisors alike. Evaluating the diligence of the individual plan and the outcome it provides to the client should be the measure of success for this proposed platform, and should determine Advisor compensation. Start by incorporating compensation rewards for the completeness of a financial plan and the number of client goals it identifies and meets. Clients and Advisors alike will benefit from a process that is more focused on quality, rather than by rewarding based on the number of boxes checked for completed plans. While tracking plan efficacy may appear difficult, a firm which believes that the success of their business depends on the diligence of their Advisors' planning will always find the resources to do so.

- No change is done in a vacuum. Time and again we see a firm consider changing a compensation variable while leaving all other variables in the equation unchanged. It is easy to calculate the cost differential or outcome using this method. If you decrease the grid percentage by 2% across all grid ranges, margins will increase by 2%. The problem is, the calculation is never correct upon implementation. There are no meaningful changes that can be made without other variables being impacted. If you decrease the grid percentage by 2% you might lose some Advisors, you might not be able to add as many new Advisors, Advisors may produce more to get back to their previous grid level, or Advisors may shift their product mix to more commission instead of advisory revenue. The solution is to know all the other variables impacting results and be honest about the impact that changing a single variable might have on them. Project the possible ranges for the impacts of your changing variables, and calculate the potential outcomes under each of the separate scenarios (i.e. best case, worst case etc.). This will help quantify the benefit or cost of the change, and give you a better realization of what you will be managing to in the future.

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## Conclusion

The Advisor compensation market appears to be at an inflection point, one in which an unprecedented degree of pressure is being placed on Advisors to reach higher production levels, and at the same time invest in financial profiling and planning. The desire for Advisors to consistently reach annual production of $500,000 and above is evidenced in the structure of many firms' grid payouts; there is a clear correlation between higher levels of production and wider payout margins at the top end of most grids. While production remains the primary driver of Advisor compensation, it can be seen that many firms are adopting a secondary method of compensation by selecting a particular special incentive objective, focusing on one incentive and reducing the emphasis placed on all others. For most firms, compensation is still highly weighted towards revenue production over all other objectives. While the perceived risk associated with paying more for behavioral performance may at first be difficult to accept, we encourage firms to start implementing a greater portion of compensation in this manner so that they are able to better align their compensation with internal business objectives at a measured pace, rather than continuing to rely on the revenue dominated plans common today. The market's demand for high-producing Advisors combined with the wide range of payout methods across the industry results in a compensation environment where the retention of high-producing Advisors will be increasingly difficult for those firms not developing their Advisors and consistently being viewed as the employer of choice. The formula remains the same. Firms that invest in their Advisors to help them become more competitive, and reinforce necessary skills and behaviors through compensation will have the winning combination to attract, retain and grow skills and performance the most effectively. With competitive pace of change increasing, this distinction between those who can and cannot will become even more evident.

## About the Authors

Peter Bielan has been an active participant in the financial institution investment services industry since 1985. His roles have encompassed Advisor, Sales Manager and President of the Retail Broker/Dealer for two of the 15 largest US Banks. As a Principal of Kehrer Bielan Research & Consulting, Bielan's focus is on growing the investment, wealth management and insurance business within Banks and Credit Unions. He manages the firm's financial institution's compensation consulting practice and conducts complete business reviews, as well as consulting on recruiting, technology and operations, and the transformation to an advice model. Throughout his career he has strategically focused on profitably growing sales, developing the infrastructure needed for expansion, and leveraging the partnership between investment services and other businesses within the financial institution. In recent years he has personally championed the transformation towards fee-based business, established non-branch based Advisors, incorporated insurance offerings, expanded registered platform programs and developed Advisor recruiting programs. Bielan has also performed leadership roles in the retail bank providing a first-hand understanding of the central role of deposits and loans in the business.

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## About Kehrer Bielan Research & Consulting

KBR&C provides the financial advice industry with insights based on a melding of research and experience in managing the delivery of investment, insurance, and wealth management services. The financial institution provides performance assessment and benchmarking, talent management and development, due diligence, consumer insights, and interpretation of industry trends through its original research, unbiased consulting, and peer study groups.

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