CARSON
COACHING

Advisor Compensation Models

There is no single "best" advisor compensation package that works for every firm – we've seen many different examples that work well. This course is designed to walk you through the process of creating an advisor compensation model that aligns with your culture, goals, and compensation philosophy.

By the end of this course, you should be able to:

- Define target compensation for various advisory roles in your firm.
- Determine the compensation breakdown between salary, revenue split, and bonus for each advisory role.
- Decide if, when and how to add profit sharing or equity for advisors.
- Determine your standard agreement for existing assets an advisor brings to the firm.
- Outline additional perks, benefits, and cost sharing arrangements for advisors.
- Calculate the financial impact of the new advisor compensation model to your firm.
- Document and clearly communicate the compensation plan to advisors.
- Review example compensation models to help guide your thinking.

Overview:

Advisor compensation used to be simple – advisors were independent contractors and received a certain percentage of the revenue generated by their clients. While this model worked well when every advisor was truly on their own, as they grew from a *practice* to a *business*, firm leaders started seeing some limitations with the model:

- It's difficult to create a consistent client experience and unified message when each advisor is essentially their own business unit and they technically have the ability to "get the job done" as they see fit.
- Recruiting new advisors, especially next-gen advisors, under the old model can be tough. As the industry transitioned toward fee-based and away from commission-based compensation, it became even harder for new advisors to make ends meet when first getting started.
- The old model really only incentivizes one type of behavior – increasing revenue -- creating challenges in everything from creating a culture of compliance to setting up specialized advisory roles (lead advisor vs. service advisor) to setting growth goals.

- A simple revenue-split model can create a sense of competition against each other rather than with each other as a team. While there might be some friendly internal competition, the real competition should be seen as "our firm" vs. "other firms."

"Simple and straightforward" should still be your goal in creating an advisor compensation model, but you will likely need to make some modifications to the old "eat what you kill" compensation structure. Carson doesn't endorse any single "best" advisor compensation package that works for every firm – we've seen many different examples that work well. **In this course, we will teach you how to think about and create a compensation model that works for your firm.**

While we'll share some examples at the end of the course, we would encourage you to take the time to create a thoughtful plan that aligns with your firm's unique culture and goals. The compensation model that a $10-billion firm uses does not directly translate to an effective compensation model for a $150-million firm.

How your firm builds its compensation structure should be firmly rooted in your compensation philosophy and what you are looking to achieve, with a few caveats:

- A base salary is critical to controlling the client experience by making the advisor a firm employee.
- Be careful of going above standard industry benchmarks (30-40% of revenue) for total advisor compensation and benefits.
- You *must* tailor the compensation to the role and what the objectives are for that role, and compensation needs to match expectations.

The high-level steps to creating a compensation plan that works for your firm are:

- **Step 1:** Define target total compensation
- **Step 2:** Determine the compensation breakdown between salary, revenue split, and bonus
- **Step 3:** Decide if, when and how to add profit sharing or equity
- **Step 4:** Determine an agreement for existing assets an advisor brings to the firm
- **Step 5:** Outline additional perks, benefits, and cost sharing arrangement
- **Step 6:** Calculate the financial impact to your firm
- **Step 7:** Document and clearly communicate the compensation plan
- **Step 8:** Review examples for guidance

A tip in advance – creating an effective advisor compensation structure is a little bit like building a house – once you get into it, the details and finish options can seem a little bit overwhelming. We've packed this course with different approaches – so take your time in working through the lessons and digesting the different schools of thought. If you get lost in the weeds, bring yourself back to the high-level steps.

There is no "perfect" model, but there is a model that best fits your culture, that will attract the right advisors for your firm, fairly compensate and motivate your advisors, and generate appropriate margins. The process of creating an effective advisor compensation model can take some time and thought, so let's dive in.

Step 1: Define target total compensation

"Begin with the end in mind." – Stephen Covey, The 7 Habits of Highly Effective People

When building your advisor compensation plan, start by defining what you want the target total compensation for each role to be. Otherwise, you may put a lot of work into a plan only to find that it significantly under or over-compensates advisors in that role.

There are two simple methods to define a target compensation number for advisors: as a percentage of revenue managed and using benchmarking data. You may want to calculate using both methods and then determine the range based on a combination of those two.

Download the ***Advisor Compensation Workbook*** tool to keep track of your calculations as you work through the process.

Revenue Managed

We'll start with the "Revenue Managed" method:

1) How much client revenue will this role directly manage?

   The key word here is "directly manage." How much revenue is this role directly responsible for?

   If you're a solo CEO/Advisor hiring an Associate Wealth Advisor to service your lower-tier clients, use your segmentation data to determine how much revenue you will be transferring to the AWA role. Will this put them at full capacity or do they have some room to add more clients and revenue? Let's say they'll be at 75% of capacity.

   Using the average revenue of the clients that you'll be transferring to them, extrapolate it out to full capacity. If the average revenue per client is $1400 and you consider 150 clients a "full load," the revenue they'll be responsible for managing is $210,000. That should be the revenue number you use -- not 30% of the entire firm's revenue.

2) Multiply revenue managed by 30%.

   We use 30% as a baseline based on the results from benchmarking studies of successful RIA firms. 30% should leave you room for additional benefits, overhead costs, and a profit margin healthy enough to withstand market downturns.

   In the AWA example above, 30% of the $210,000 revenue managed would put the total compensation at $63,000.

Benchmarking Data

Next, we'll use the "benchmarking" method:

1) Review industry benchmarking reports for similar roles and responsibilities.

There are a number of compensation benchmarking reports published by custodians, industry media groups, and consulting firms. Check to see if you have free or discounted access to a report through your vendor relationships.

Review the list of roles and responsibilities. Because the very nature of benchmarking requires that roles be categorized and compiled, you may not find an exact fit for the title or responsibilities. Find one or two that best match the job description for your advisory position.

2) What is the third-quartile total income listed?

   Next, document the figure listed for total income at the "third-quartile" level or above. The "third-quartile" number is the median of the upper half of the data set -- where 75% of the data falls below the point. If you want to hire and retain the best people, you need to be willing to pay at the top of the pay scale. Don't lose good advisors over a small amount of compensation – they will make up for it!

3) Adjust for regional differences as needed

   Some benchmarking tools allow you to filter by region, state, or city. If your tool does not have this option, remember to adjust for regional differences. If you live in a high cost of living area like New York or California, paying the national average for a role won't attract the kind of talent you want on your team.

COACH TIP: Total compensation is always a balancing act – you must pay enough to attract and retain top talent, especially in times when demand is high, but be mindful of how a compensation plan could play out in the future given various scenarios. You never want to get in a situation where you are forced to reduce advisor compensation because you didn't plan well! Your compensation should be on the "right side of the bell curve" -- if you use the 3rd quartile number, you can be fairly confident that you are not undercompensating your advisors compared to industry standards.

Once you've calculated the target compensation using both methods, choose a compensation *range* for the role that gives you some flexibility, but is still attractive to high-performing advisors.

Before we move on to the next section, take a moment to record your calculations in the *Advisor Compensation Workbook.*

Step 2: Determine the compensation breakdown between salary, revenue split, and bonus

There are generally three components to an advisor compensation model: base salary, revenue split, and bonus (incentive). After you've outlined the target total compensation for an advisory role, the next step is determining how the target compensation you defined will be split between those three components. There tends to be a spectrum.

Models that are sometimes referred to as "results-based comp" are heavily weighted to variable compensation (revenue split). They often have low or no base salary. Firms that utilize this model often have cultures that value sales ability, risk-taking, competition and individual achievement. In this model, the compensation reinforces the desired behavior of business development and overall asset/revenue growth.

On the other end of the spectrum is a pure fixed salary-plus-benefits model. In this model, advisors are paid a fixed salary that may increase as certain milestones are met. Firms that utilize this model often have cultures that value teamwork, fee-based or fee-only planning, and professional expertise. They do not want to foster what is sometimes referred to as an "eat what you kill" culture.

In this model, the compensation reinforces the desired behavior of teamwork, continual professional development, and a focus on client retention. This model has a large salary range that is determined by experience, competency, caliber of clients served, and contributions to firm success. Advisors with this approach hire advisors that understand they don't want to be business owners or entrepreneurs because there is a risk, liability, and work associated with running a business.

This model looks for advisor that want to be great at "practicing their trade"! They want to be part of a great profession, be lifelong learners, and a part of a great team that has a shared vision. They are wonderful professionals, but value balance in their lives and have an 8:00 to 5:00 mentality. They don't think like business owners. They are the true definition of W-2 advisors. They are dedicated employees who contribute to a great work environment.

In this model, it is even more important that you clearly define the objectives and service parameters of the job -- things like retention expectations, timeliness, asking for referrals, and capturing additional share of wallet (SOW). In addition, this model comes with strong conviction on the owner's part that the level of effort and enthusiasm the advisor has for the role will sustain in perpetuity.

In the middle are what you might call "balanced" models. They provide a fixed base salary and some combination of revenue split and/or incentive pay to encourage specific behaviors. Firms that utilize this model often see the benefit of providing a base salary to their advisors, but also want to provide opportunities for significant upside potential to advisors who meet and exceed certain objectives outlined by the firm. In this model, the compensation reinforces specific behaviors outlined by the firm, often varied according to specific advisory role.

We'll do a deep dive into each component and offer a few different approaches you can use to determine how you want to build your compensation model.

There are five high-level questions you'll want to keep in mind as you think about each component:

1) How much of the advisor's total compensation do you want to be predictable? (Base Salary)
2) How much of the advisor's total compensation do you want to be variable and focused on asset/revenue growth? (Revenue Split)
3) How much of the advisor's total compensation do you want to be tied to specific goals and behaviors? (Bonus)
4) What kind of compensation model fits your culture?
5) What kind of compensation model will attract the type of advisors you want at your firm?

But first, get clear on your culture and behaviors you value and want to incentivize.

Now that you have a general idea of how you want to break down the compensation model, let's dive in to each component to see how different firms approach the specific breakdown.

COACH TIP: Things are about to get really detailed! There are many ways to build a compensation plan, so remember, if you get lost in the complexity, come back to the "bones" of advisor compensation:

Advisor Compensation Formula:

Keep total compensation to no more than 30% of revenue managed.

Key Questions to Answer:

1) How much of the advisor's total compensation do you want to be predictable? (Base Salary)
2) How much of the advisor's total compensation do you want to be variable and focused on asset/revenue growth? (Revenue Split)
3) How much of the advisor's total compensation do you want to be tied to specific goals and behaviors? (Bonus)
4) What kind of compensation fits your culture?
5) What kind of compensation model will attract the type of advisors you want at your firm?

Component 1: Base Salary

We strongly recommend that advisors have a base salary as some component of their overall compensation. A base salary:

- Helps ensure that advisors put the client's interest first by giving them a steady, pre-determined income to pay for basic necessities like food, clothing, and housing.
- Attracts new talented advisors – whether NextGen or career-changers -- who don't have a large nest egg to draw from while building their group of clients and associated revenue.
- Allows firms to control the client experience by making advisors employees of the firm rather than independent contractors.

There are four different approaches you might consider using to determine the base salary component of your advisor compensation plan.

- Stable income percentage
- Role comparison
- Minimal salary
- Multiple hats

Let's look at each of these in detail.

1) Stable Income Percentage Approach:

   This approach is an important step in aligning the advisor compensation model with your compensation philosophy, culture, and the role objectives.

   a. Based on your firm philosophy, what percentage of the role should be stable income vs. variable compensation?

Some firms have strong fee-based financial planning cultures and believe that a large percentage – upwards of 85-90% -- of an advisor's income should be salary. Others may have a philosophy of rewarding individual performance, risk taking, and effort, and believe that only a small percentage should be a set base salary.

b. Based on the role (servicing vs. revenue-producing) and how that person might be wired (stability vs. risk-taking), what percentage of the role should be stable income vs. variable compensation?

   To over-generalize, the type of personality that is suited to a rainmaker, or revenue-producing, advisor role is sometimes attracted to a compensation model that has lower guaranteed income and higher potential; the type of personality best suited to a servicing advisor role sometimes prefers stability of income. This is most definitely not a hard-and-fast rule, but something to consider as you are building your model.

   In addition, it's important to align the role objectives with the compensation model. For example, firms generally hire a "Service" advisor to create more capacity so that the owner of the firm, or lead advisor, has more capacity to grow the business.

   If you need a Service Advisor to take good care of existing clients, a compensation plan that heavily weights new business generation could cause them to focus their efforts on prospecting at the expense of servicing your existing clients. On the other end of the spectrum, expectations of a self-sufficient Lead Advisor are to directly help grow the business, so a 90% salary model could work against that objective.

Make note of your initial thoughts about target base salary based on stable income % approach in the *Advisor Compensation Workbook.*

2) Role Comparison Approach:

   This approach can be helpful in gauging equity between roles in your firm and can be a great place to start if you're adding your first non-owner advisor.

   a. Select another role in your firm – Operations Associate, Front Office Associate, etc. What is the base salary for the selected role?

      For purposes of this exercise, let's choose the Front Office Associate – you might also call the role a Receptionist or Director of First Impressions – with a base salary of **$40,000.**

   b. Compare the skillset and responsibility of the advisor role to this comparison role. Percentage-wise, how much more "qualified" or "skilled" does this advisor role need to be?

      For purposes of this exercise, let's say that you determine someone in this advisor role needs to be **75%** more qualified or skilled than the Front Office Associate – you expect them to have completed a CFP® program, have their Series 7 and 66 licenses, and be generally well-versed in the industry.

   c. Adjust salary from comparison role to advisor role by the percentage amount.

Take the numbers from your two answers above. The base salary for this advisor role should be **at least $70,000.**

Make note of your initial thoughts about target base salary based on role comparison approach in the *Advisor Compensation Workbook.*

3) Minimal Salary Approach:

This approach works well for firms who have a compensation philosophy that values results-based compensation.

a. What base salary is required for someone to have a decent (not extravagant) lifestyle in your area? Consult online cost-of-living calculators if needed.

b. What is the required annual income before taxes for a family of 3 in your area? http://livingwage.mit.edu/

Make note of your initial thoughts about target base salary based on the minimal salary approach in the *Advisor Compensation Workbook.*

4) Multiple Hats Approach:

This approach makes sense when you are determining compensation for a role that is a combination of advisor and support roles.

a. What is the industry standard salary for a similar advisor–only role?
For this example, we'll say the salary we determined from benchmarking is $100,000.

b. What other roles in the firm will this person be filling?
For this example, this role will also be filling a trading and research role.

c. What is the industry standard salary for this role? (Role #2)
In this example, the trading and research role benchmarking data shows a salary of $60,000.

d. What percentage of time will this person spend on advisor duties vs. Role #2?
For this example, we'll say that the role will be **75% Advisor / 25% Trading and Research.**

e. Multiply percentage advisor time by advisor standard comp; multiply percentage Role #2 time by Role #2 salary; add the two figures.
In this example, the role's base salary should be the sum of $75,000 (75% x $100,000) and $15,000, or **$90,000.**

f. Adjust as needed to retain key talent.
If you have a very talented individual who could easily command the full Advisor rate at another firm, but you can't keep them at full capacity and need them to play a hybrid role, consider increasing their income to a rate needed to retain them. Be very comfortable adding some additional compensation for their ability to be a "Swiss Army knife" for your business.

Make note of your initial thoughts about target base salary based on the multiple hats approach in the *Advisor Compensation Workbook.*

Based on the four different approaches, make a decision about what the percentage of total compensation SALARY should be in the advisor compensation model.

Component 2: Revenue Split

The second component of an advisor compensation model is a revenue split. Based on your firm's philosophy and the role itself, it may or may not be a part of your model. If you want to include this component in your model, calculate what the revenue split should be using one of two approaches.

COACH TIP: When we refer to a revenue split, we define it as a split of the GROSS revenue from a client. So, if the total revenue to your business is $10,000, a 10% revenue split would equate to $1,000.

1) Simple Approach:

    a. Take the target compensation range and subtract the target base salary range
    Target compensation: $125,000
    Base Salary: $75,000
    ____
    $50,000

    b. Divide that number by the total revenue managed
    $50,000 (revenue split available)
    / $500,000 (revenue managed)
    ____
    10% Revenue Split

    OR

    c. Determine how much of that number you want to be revenue split vs. incentive pay:
    $25,000

    d. Divide that number by the total revenue managed
    $25,000 (revenue split available)
    / $500,000 (revenue managed)
    ____
    5% Revenue Split

2) Team-Based Revenue Split Approach:

    If your advisors work in a team structure, you will want to adjust revenue splits accordingly.

    a. Based on your current structure, or one you anticipate creating in the future, are there be multiple layers of advisors managing a client? (AWA/WA/SWA) -- YES or NO

    b. What are the total base salaries plus anticipated benefit costs for the team of advisors who will be serving this group of clients?

c. Subtract the salary and benefits number from 30% of revenue managed.

d. What percentage of total revenue remains?

e. How should that percentage be divided between the roles on the team?

Make note of your initial thoughts about revenue split based on these approaches in the *Advisor Compensation Workbook.*

Based on the two different approaches, make a decision about what the percentage of total compensation REVENUE SPLIT should be in the advisor compensation model.

Component 3: Bonus

The final component of an advisor compensation model is a bonus – also known as incentive pay. While revenue splits can loosely encourage things like new business development and retention, incentive plans are a great way of encouraging very specific behaviors. These generally fall into one of two buckets: business development incentives and servicing advisor incentives.

1) Business Development Incentive:

   a. Will this role be expected/rewarded for generating new clients for the firm? If yes, you may want to include a business development incentive. Business development incentives could be:

      i. Percentage of first-year's revenue from a self-sourced new client

      ii. Flat dollar amount for each self-sourced new client

      iii. Flat dollar amount for hitting a new AUM goal

      iv. Increase in revenue split payout after hitting a certain new AUM goal

      v. Percentage of first-year's revenue from new assets from an existing client

   b. What is the normal cost-of-acquisition that may be circumvented when an advisor generates a new prospect on their own?

      i. What is your average cost of new client acquisition for firm-generated leads? If you don't know, a back-of-the-napkin calculation is total prospect-focused marketing expenses in the last 12 months divided by total number of firm-generated new households in the last 12 months.

      ii. What percentage of an average client's annual revenue is that? For an ideal client of $1,000,000 at a 1% fee, a $2500 acquisition cost equates to 25% of first-year revenue.

      iii. If an advisor is able to self-source new clients, theoretically you don't have the normal cost of acquisition expense and have margin to pay part of that cost-of-acquisition expense to the advisor.

c. Do you want to pay business development incentives in a lump-sum up front or over time?

Some firms choose to pay incentives as soon as the client signs (more impactful to the advisor), while others choose to pay incentive as revenue is earned from the new client (less risk to the firm).

d. What NNA amount could be reasonably expected of an advisor in this role when it comes to business development?

Remember, a servicing advisor should be spending a bulk of their time taking care of existing clients – who are often lower-tier clients. They may only be able to generate $3-$10M/year in net new assets from referrals and capturing additional wallet share.

An advisor you have wearing multiple hats may only be able to spend 10% of their time prospecting – so they may only bring in 10% of the new assets a full-time advisor would bring in.

Don't make new business incentives a large portion of an advisor's compensation package if the opportunity isn't *really* there because they won't have the time or resources to focus on new business development.

2) Servicing Advisor Incentives:

a. What amount would you like to make available for outstanding performance?
Often the bulk of a Service Advisor's compensation is salary – so decide on the amount of incentive pay available to that role -- either in a dollar figure or percentage-of-base number.

For this example, let's say you want to go with a 20% of base salary incentive package.

b. Next, determine in what areas the advisor should have cocrete goals. Four common ones are:

i. Retention

ii. Capturing greater share of wallet (SOW)

iii. Referrals

iv. Firm initiatives

c. Finally, attach a specific dollar figure or percentage of base salary to each category or specific goal. For our example, the breakdown may be:

i. Retention – Maintain 95% retention of A & B clients – 5% of base salary

ii. SOW – Add $2M of new assets from existing clients – 5% of base salary

iii. Referrals – Receive 6 qualified referrals from existing clients – 5% of base salary

iv. Firm initiatives – Successfully project manage the rollout of a new financial planning software – 5% of base salary

COACH TIP: Although their role is to take care of existing clients, it is appropriate to reward Service Advisors for new business in a similar manner as noted above. It often won't be a large portion of their compensation, but recognizes them when new business occurs.

Make note of your initial thoughts about incentive pay based on these approaches in the *Advisor Compensation Workbook.*

Based on the two different approaches, make a decision about what the percentage of total compensation BONUS should be in the advisor compensation model.

We just presented a lot of information, and it may seem overwhelming. To bring it back to the simple:

- Take the target compensation you determined in Lesson 1.
- Get clear on your cultural values and what behaviors you want to incentivize.
- Break the target comp down between Salary, Revenue Split, and Bonus.

Step 3: Decide if, when and how to add profit sharing or equity

At some point, talented advisors will likely want to share in the success and future growth of your firm. If they aren't given the opportunity for profit sharing or equity, advisors your firm relies upon may leave to either start their own firm or join another firm that offers the potential they are seeking.

Note: Adding profit sharing or equity to a compensation plan should be thoroughly analyzed before implementing since they can have significant impact on the owner's personal financial situation and could involve legally binding agreements in some circumstances. Please consult with your Carson Business Coach and tax/ legal experts in your state.

1) What is the goal of profit sharing or equity? Some of the reasons we normally hear are:

    a. Increased income for the advisor
    b. Help advisor feel like a part of the team
    c. Key employee retention
    d. Succession planning
    e. Various others

COACH TIP: Don't use equity to "motivate" an underperforming advisor because you think "having skin in the game" will make them work harder – it rarely produces the results you're looking for.

2) Has your firm been in a financially-stable (profitable) position for at least 3 years?

    If not, you are not in a good place to be offering equity – which may come with the need to dig into their pockets -- to your team members, whether or not they are advisors.

3) How much TOTAL equity or profit as a percentage would you be willing to sell or grant at this point in time?

There is no “right” answer to this, but be careful about giving away control over your firm before you have the right leadership, people, and decision-making structure in place.

4) What percentage of that above amount would you like to reserve for other key employees/advisors or future hires?

   Keep in mind, the advisor you are considering selling or granting equity to now may not be the only one. Equity can be a powerful component in a compensation package, so you want to reserve some equity for additional key hires.

5) Has the advisor been with the firm at least 5 years?

   If not, be very cautious about selling or granting equity that does not have very specific limitations and “protection” clauses like conditions for buy-back, surrender of shares, voting vs. non-voting shares, etc. You simply can’t know an advisor well enough in under 5 years to know whether they are the right long-term partner. And when you sell or grant equity, that’s what you get: a partner. In this case, you may be better off creating a profit-sharing agreement.

6) Is the advisor self-sufficient? Could they go out and be a competitor right away?

   If the advisor is incredibly capable in all aspects of being a CEO/Advisor – rainmaking, building client relationships, financial planning knowledge, and business management thinking – they are self-sufficient and could easily start up their own firm. **If you don’t create a path to partnership for them, they will likely leave your firm.** At this point, offering equity is very much a retention play – you want to avoid losing a team member because it could negatively impact firm success.

7) Does the advisor have the financial resources to buy in to the firm?

   Sometimes you have very talented advisors who don’t have the financial resources needed to purchase a share of equity. In this case, you may look for other ways of compensating the advisor, granting a small portion of equity as part of compensation, or giving them financial assistance.

8) Are you willing to provide or arrange for financing to help the advisor buy in to the firm?

   As noted above, not all talented advisors have the financial resources needed for a lump-sum purchase of equity in your firm. Consider whether you can provide financing or work with your business banking provider to act as a co-signer on a loan to purchase the equity.

COACH TIP: A path to equity can be a powerful component of your advisor acquisition and retention strategy – but it is important that you be thoughtful in designing your plan by setting forth clear metrics an advisor must meet to be eligible.

Make note of your initial thoughts about profit sharing and equity as part of your advisor compensation model in the *Advisor Compensation Workbook.*

Step 4: Determine an agreement for existing assets an advisor brings to the firm

In some instances, you'll have the opportunity to acquire an advisor with an existing book of clients. In this case, you need to determine how you might want to adjust the compensation model – if at all – for these assets.

The temptation can sometimes be to pay a higher revenue split on assets the advisor brings over – but that is generally not the best option.

COACH TIP: Don't pay a higher revenue split on existing assets an advisor brings with them -- if it's 4:59 p.m. and two calls come in, one old and one firm-provided, you don't want them to prioritize their higher-payout over the firm account simply for that reason.

Before making any commitments, review the existing client and account list. Do these align with your firm's ideal client profile, investment offerings, and service model? If not, you may not want the advisor to bring them over to your firm, or you may decide that they don't add enough value to your firm to pay premium compensation for these assets.

Options you may want to consider are:

- Increase the base salary to compensate the advisor for assets they are bringing over.
- What was the advisor netting on those assets at the old firm, after all expenses? Consider setting their base salary to at least that amount and modifying the revenue split accordingly. Just be careful to not go above a total compensation of 40% of revenue for those assets.
- Buy the assets so that the firm owns them.
- If the existing book of clients aligns with your ideal client profile and service offerings, consider purchasing the assets so that your firm owns the relationship, then paying the advisor based on your normal compensation model. This creates clarity and simplicity, plus it adds to your overall firm's value.
- Pay the advisor an upfront bonus equivalent to what you would pay for a self-sourced new client.
- If your model has a business development incentive for self-sourced new business, make a one-time payment equivalent to that incentive amount for the new clients they bring over as part of the transition. You may want to make this payment contingent on retention of those clients over a period of time or pay out in stages. After the bonus is paid, the advisor receives the regular revenue split on those assets.
- Allow the advisor to contractually own the client relationships.
  However, keep in mind that these assets will not necessarily add to your firm's intrinsic value and you should not be paying for them as if they were.

Make note of your initial thoughts about agreements for existing assets as part of your advisor compensation model in the *Advisor Compensation Workbook.*

Step 5: Outline additional perks, benefits, and cost sharing arrangement

Advisors can be a little bit different from other team members when it comes to perks, benefits, and cost sharing agreements.

In general, if an advisor is paid a base salary and considered an employee of your firm, they should receive many of the same benefits that your non-advisor employees do, like retirement plan matching, health insurance, and paid time off. Laws around compensation and benefits can vary, so ensure you check with an employment expert in your state.

Next, consider many of the costs that come with being an advisor:

- Licensing fees
- E&O premiums
- Affiliation fees
- Continuing education
- Professional development and designations
- Subscriptions
- Rent and equipment
- Technology
- Support staff salaries
- Marketing expenses
- Client entertainment
- Travel and conference costs

You should clearly outline in your advisor agreement which costs are covered by the firm, which will be the responsibility of the advisor, and any limits that may apply.

Many firms have switched to a comprehensive value model for advisors that provides everything from office space and supplies to support staff to marketing programs. This helps create a simplified financial structure and can be more attractive to advisors. The “30% of revenue” formula we’ve used throughout the course assumes you are covering many of the above expenses.

Finally, consider any perks that you would like to offer advisors, like cell phone reimbursement, meal reimbursement, and others that may relate to business development or client service/entertainment.

Make note of your initial thoughts about cost sharing, benefits, and perks in the *Advisor Compensation Workbook.*

Step 6: Calculate the financial impact to your firm

Before implementing any advisor compensation model, it is critical that you run through a variety of scenarios to stress-test the plan.

Run these six calculations before finalizing your advisor compensation plan:

1) What is the total financial cost associated with hiring this advisor, including salary, benefits, revenue split, and incentives?
2) Considering your average fee, how much new AUM do you need to bring in to offset this amount?
3) In light of the time this new advisor should free up for a senior advisor, is this new AUM amount doable?
4) Plug the new costs in to your previous P&L, without adding in expected new assets. How does this affect your margins now?
5) Project out 2-3 years, adding in expected costs and new assets. How does this affect your margins?
6) Run a worst-case scenario. Plug the new costs in to your previous P&L and decrease fee revenue by 25%. How does this affect your margins?

These calculations help you understand both the upside potential of adding an advisor AND the impact of the additional expenses both now and in leaner times. It's worth the time and effort to get it right the first time. Nothing can negatively impact advisor morale quite like regularly changing their compensation plan or modifying it downward because you didn't take the time to project the plan's impact or ensure it was sensible to begin with.

COACH TIP: Developing a compensation plan is a bit of an art form, especially in smaller firms that are just beginning to expand their advisor team. Think beyond today: as you look 3, 5, 10 years out, what will your advisor team look like? Design an advisor compensation plan that will grow with your firm.

Once you feel comfortable and confident with your proposed plan, make sure to run it by an outside party like your Carson Coach to get their feedback.

Step 7: Document and clearly communicate the compensation plan

Now that you've outlined and finalized the model, it's important that you document and clearly communicate the compensation plan to the advisor(s). Create documentation that outlines both the plan itself plus an example. In some situations, it may make sense to create a hypothetical projection so that the advisor can see their income potential over time.

In a single document, outline three areas:

1) What is the total compensation package for this role?
   Base Salary: $ ___________________________

   Revenue Split: _________________________ **%**

   Incentive Pay: ____

   Equity Potential: ____

2) What are the duties and expectations for the role?

3) If an advisor is wearing multiple hats, what part of the compensation package is attributed to other roles, and how might that change if they become a FT advisor?

COACH TIP: Clarity is key when it comes to compensation. Equally important to paying well is clearly communicating not only your model and the reasons for it, but also providing supporting documentation. It is not enough to simply "get to the right amount" -- you want to be assured the advisor understands your process and feels fairly or more than fairly compensated. Ask your coach or study group to poke holes in your plan documentation. If something is unclear, fix it now to prevent future headaches.

To see examples of different advisor compensation models, continue on to the next step.

Step 8: Review examples of advisor compensation models to inform your own

Sometimes easier to create your own model when you can see what others look like, so here are a few examples of various advisor compensation models:

<u>Carson Wealth – Legacy Model</u>

In prior years, Carson Wealth used a model that worked well for smaller firms with smaller advisory teams. Many coaching members know this as the "Advisor Growth Path" model. Teams were generally created with one more senior advisor (Senior Advisor) and one more junior advisor (Associate Wealth Advisor or Relationship Manager). In this compensation model, advisors had a steady base salary with opportunities to increase their revenue split as they grew their client book and expertise.

Relationship Manager:

- Base salary: $55,000
- Incentive compensation: 3% of base salary for meeting performance expectations

Associate Wealth Advisor:

(Allocated $675,000 revenue book - $50M AUM @ 1.35%; $40M AUM @ 1.7% bill rate)

- Base salary: $55,000
- Revenue split: 3-4% ($20k-$35k) OR can go to 5% upon receiving CFP®
- Incentive compensation: 20% of first year's revenue on personally-driven (self-sourced) net new assets (NNA) – one time payout
- Profit incentives may be offered on a case-by-case basis
- Year 1 Estimated Compensation: $75k-$85k+
- Year 2 Estimated Compensation: $80k-$90k+
- Year 3+ Estimated Compensation: $90k-$100k+

Wealth Advisor:

(Eligibility requirement of growing book to $1M in revenue)

- Base salary: $55,000
- Revenue split: 10%-15%
- Incentive compensation: 20% of first year's revenue on personally-driven (self-sourced) net new assets (NNA) – one time payout
- Profit incentives may be offered on a case-by-case basis

Senior Wealth Advisor:

(Eligibility requirement of growing book to $1.5M in revenue)

- Base salary: $55,000
- Revenue split: 20% of team revenue
- No business development incentive at this level; the expectations are for them to be a rainmaker and build a team by mentoring the AWA.
- Profit or equity incentives may be offered on a case-by-case basis

Carson Wealth – New Model

Carson Wealth eventually outgrew the legacy model. The new compensation model aligns with the new team structure (outlined in our course on advisor team structures) and is designed to remedy three common challenges for advisory firms:

- Many advisors are better at servicing clients than rainmaking
- Advisors reach capacity and can ultimately grow complacent
- There is no incentive to mentor the next generation of advisors into starting their own team

Paraplanner/Relationship Manager:

- Base salary: $55,000
- Incentive compensation: 3% of base salary for meeting performance expectations

Wealth Advisor:

- Base salary: $55,000
- Revenue split: 10% of directly managed assets
- Profit incentives may be offered on a case-by-case basis

Senior Wealth Advisor:

- Base salary: $55,000
- Revenue split: 10-15% of team revenue
  - 10% is paid out 8% cash and 2% deferred comp, which is a 4-year vest
  - 15% is paid out 12% cash and 3% deferred comp, which is a 4-year vest
  - Payout increases are determined by team AUM and revenue tiers.
- Growth incentive:
  - Equity buy-in
  - Continue to pay SWA revenue split for 2 years on the revenue of the WA they mentored who starts new SWA team

Fixed Salary Model

Wealth Advisor:

- Base salary: $60,000-$250,000
- Salary based on experience, competency, caliber of clients served, and contributions to the firm
- Revenue split: none
- Bonus: 5%-15% of base salary if the company meets revenue goals and they meet individual performance measures.

Role-Based Model

Service Advisor:

- Base salary: $75,000
- Revenue split: None
  - Bonus: Up to 20% of base salary
  - 10% for maintaining a 95%+ client retention rate for the period
  - 5% for meeting NNA (from existing client) goal for the period
  - 5% for meeting referral goal for the period
- May be reduced pro-rata if company revenue targets are not met
- Profit incentives may be offered on a case-by-case basis

Lead Advisor:

- Base salary: $90,000
- Revenue split: 10%, may be increased to 15% if NNA goals for the previous period were achieved
- Bonus: None
- Equity may be offered on a case-by-case basis

Team Contribution Model

Wealth Advisor:

- Base salary: $40,000
- Revenue split (by specific client):
  - 7.5% for sourcing client
  - 7.5% for closing client
  - 15% for servicing client
- Bonus: None

Senior Wealth Advisor:

- Base salary: $75,000
- Revenue split (by specific client):
  - 7.5% for sourcing client
  - 7.5% for closing client
  - 15% for servicing client
- Bonus: None
- Equity may be offered on a case-by-case basis

Summary:

Creating an effective advisor compensation model is a key part of building a scalable business and bringing work/life balance back to the lead advisor. Don't just assume that an "off-the-shelf" model will work well for you; take time to create an advisor compensation model that aligns with your culture, goals, and compensation philosophy. It is worth doing right the first time!

FAQs:

- **What's wrong just doing a simple 50/50 payout?**
  - Simple isn't always best. First of all, we generally recommend that your compensation model have a base salary component so that you can control the client experience. Second, many studies and years of experience have shown us that going above a 30-40% payout for advisors when the firm is covering a majority of expenses does not give you the margin needed to reinvest in the business and weather significant revenue declines caused by market downturns.

- **This seems so complicated. Why can't I just take an existing model and use it in my firm?**
  - What works well for one firm may not work for another. Each firm is a unique ecosystem with different cultural values, team structures, client base, and advisor expectations. If you don't take the time to be thoughtful and intentional about your advisor compensation model, you could end up incentivizing the wrong behaviors, creating a culture you don't want, or finding that you're not profitable.

- **What if a new advisor wants equity as a condition of joining, or has assets and wants to trade them for equity up front?**
  - Depending on advisor or firm, this could be a bigger merger/acquisition question – but remember, a merger/acquisition should be a "1+1=3" kind of deal in that it brings additional value to the organization beyond the assets. And in that case, you'll need to go through a thorough due diligence process. As a compensation/incentive consideration, we would encourage you to avoid offering equity at the beginning of the relationship if you're just trying to attract people or sweeten a deal. You simply can't know them well enough to give up equity.

- **How do I handle it when I hear complaints from other staff about fairness of the advisors making so much more money, or having more autonomy?**
  - This is really too complex to answer well in a short space -- so we would encourage you to work with a Carson Coach to refine your messaging before addressing this with your team. In our view, Advisory Firms are like any other professional services business out there – Law, Accounting, Engineering, Medical, etc. The people who have the skills and expertise that clients ultimately buy are generally the ones within the organization who have the highest compensation.

    Often when people bring up this concern, they are looking for respect, a sense of fairness, a path for advancement, and growth (both professionally and financially) –

many don't really want to take on the role or the risk of being an advisor. There are many ways for a non-advisor team member to be successful and add value to the organization in a way that meets their personal needs. Ask yourself: do you have a well-defined career path for non-advisors? Are you actively showing appreciation for the ways they add value to your organization? Do you have a program that rewards team members for the impact they have on your company's success?

Resources:

Learn more and download the resources referenced in this document from the ***Advisor Compensation Models*** course in Carson Coaching Online.

- **Advisor Compensation Workbook**
- **Advisor Compensation Plan Quick Sheet**