

# Team Compensation and Benefits

This course is designed to help firms design an attractive compensation package for non-advisor team members.

By the end of the course, you should be able to set a base salary range, decide on an incentive plan, and explore benefits and perks that will be meaningful to your team.

## Overview:

In the book *Drive: The Surprising Truth About What Motivates Us*, author Daniel Pink makes the case that three factors increase performance and satisfaction in the workplace: Autonomy, Mastery, and Purpose. Interestingly, though, Pink doesn't say that money doesn't matter -- it does -- he says that you should pay enough "to take the issue of money off the table."

So what does it mean to take the issue of money off the table? It means learning what fair compensation is for a given role, and paying at or above that level. And when it comes to this context, "money" includes a lot more than just a base salary -- it encompasses total compensation: base salary, incentive pay, benefits, and perks.

In today's world, you're competing against a number of firms throughout the country for truly skilled and experienced talent. To attract and retain that top-notch talent, you need to make sure what you're offering truly *does* take the issue of money off the table -- so you can compete on culture and vision.

To design an attractive compensation package, go through four steps:

- **Step 1:** Set base salary ranges that align with industry standards for each role
- **Step 2:** Implement incentive plans that reward discretionary effort
- **Step 3:** Offer a competitive benefit and perks package
- **Step 4:** Document your compensation package

Let's dive in to learn more about the first step: setting base salary ranges.

## Step 1: Set base salary ranges that align with industry standards for each role

*"I don't pay good wages because I have a lot of money; I have a lot of money because I pay good wages."*

*-Robert Bosch*

For most non-advisor roles in an advisory firm, the base salary will be largest portion of overall compensation. If you want to attract and retain top-notch talent, it's important that you be intentional in researching and setting base salary ranges throughout your organization.

The first step to determining a base salary range for a position is to have a clear job description explaining the responsibilities within the position. After all, if you don't know exactly what someone does in their role – how they bring value to your clients and the organization -- it's hard to know what “fair” compensation would be. If you haven't already done so, review our course on crafting effective job descriptions to guide you through the process.

Once you have a solid job description, it's time to do research to find what other firms are paying for similar roles.

A few well-known sources for benchmarking and compensation data include:

- InvestmentNews Adviser Compensation & Staffing Study
- RIA benchmarking studies from custodians like Fidelity and Schwab
- Benchmarking studies from industry associations
- Online calculators like Salary.com or Payscale.com

When performing your search:

- Pay more attention to the job *duties* than the job *titles*. Titles can vary widely across the industry.
- Don't filter by or adjust for education level. Focusing on years of experience rather than a specific education level will help you get more accurate information for a given role.
- If possible, filter or adjust your results based on location. There can be a wide range that skews the data either high or low for your geographic area.
- Realize that nothing is ever perfect with compensation market data. Use it to inform your decisions, but don't rely on it blindly.

Once you've found a similar role, take a look at these four numbers:

- Median total compensation
- Median base salary
- Third quartile total compensation
- Third quartile base salary

The *median* is the number right in the middle of all of the compensation data reported for that position. The *third quartile* number means that 75% of the compensation data reported falls below that number.

It's time we introduce an important concept in running a high-performance business:

### **Hire Best/Pay Best**

If you want to hire and retain the best talent available, you need to be willing to pay at the top of the scale. Practically speaking, this means you should be setting your target compensation for a role at the third quartile or above.

So how does this number translate to your base salary range?

First, make note of the *third quartile total compensation* figure. You'll use this for implementing an incentive plan.

Second, take the *third quartile base salary* figure. This will be the middle of your base salary range. A simple way to create your range is to move up or down 10% on each side.

If the third quartile base salary figure is \$60,000, your range becomes \$54,000 - \$66,000. Having a range allows you flexibility both when hiring for a role and increasing compensation as a team member becomes more competent and valuable in a role. Within the role, you may increase their base salary to the mid-point, and finally the upper-end of the range.

**COACH TIP:** Base salary ranges can work hand-in-hand with defined career paths. For example, you might define three proficiency levels within a Client Service Associate role: CSA 1, CSA 2, and CSA 3. Each level has a certain set of skills and competencies they must demonstrate. As a team member gets promoted through the levels, their base salary increases accordingly.

Once you've defined a base salary range for your position, move on to the next step in the process: designing and implementing an incentive plan that rewards and motivates your team members.

## **Step 2: Implement incentive plans that reward discretionary effort**

When well designed and executed, incentive plans improve company performance, encourage teamwork, and give team members the opportunity to share in the success of the business.

Incentive plans – also referred to as bonus plans – are used to encourage and reward team members' discretionary efforts that align with the company's goals. The base salary covers "getting the job done;" incentive pay covers "going above-and-beyond."

Wondering how much should be offered in terms of incentive pay? Go back to your research from the last lesson. What's the difference between the *75th percentile total compensation* figure and the base salary you ended up with? Convert that to a percentage of base salary, and that's likely a good place to start.

**COACH TIP:** Carson coaches generally recommends bonus potential be no less than 10% of base salary; an incentive plan that is too low probably won't get you the results you're looking for. Think about it--for a team member making \$40,000/year, a bonus potential of 3% of base salary only equates to \$1200/year, or \$300/quarter.

If goals require too many extra hours to achieve, the bonus simply isn't worth it in terms of dollars-per-hour. \$300/quarter equates to \$25/week. If it takes someone much more than one hour per week of overtime, \$25/week is probably not worth it to them to take time away from their family.

While there are many types of incentive plans you can offer, two options we recommend are *Activity-Based* and *Performance-Based*.

## Activity-Based Bonus

The activity-based bonus is very simple and straightforward. You select a bonus amount available – typically a percentage of base salary between 10-25% -- and then set activity-based goals the team member needs to achieve in order to receive the bonus. Each goal is worth a certain percentage of the overall bonus.

We recommend setting goals and paying incentives quarterly or semi-annually.

An example would be a team member with a base pay of \$40,000 and a 20% bonus potential, paid semi-annually:

Total annual bonus available: \$8,000 >>>> Semi-annual bonus available: \$4,000

Goal #1	Weight 25%	\$1,000
Goal #2	Weight 10%	\$400
Goal #3	Weight 30%	\$1,200
Goal #4	Weight 35%	\$1,400

Document the details of the goals and potential bonus amounts using a form like our [Activity-Based Bonus Tracker](#).

Managers should be checking in on goal progress regularly during one-on-one meetings, so there should be no surprises when it is time to evaluate completion and pay out the bonus. Schedule a review meeting with the team member within the first two weeks after the end of a period to formally evaluate goal completion and confirm the amount of bonus to be paid.

When setting goals for the activity-based bonus:

- The goals should require a stretch to meet. You might use the assumption there is a 50-75% chance of completion. In other words, the goals should not be too easy or too hard. It is understood there will be times goals will not be met.
- Goals should be set before the beginning of each period, collaboratively between the manager and the team member. Setting goals without the team member's buy-in rarely leads to success.
- Use a combination of team goals and individual goals, but try to not have more than 6 total goals so that the team member can stay focused on what matters.
  - Team goals should be no more than half of the total bonus, and are important to keep everyone on the team focused on outcomes that move the business forward.
- Individual goals should be activity-based goals, not outcome-based goals. This means the team member has some control over whether or not they are completed.
- All goals should be SMAC- certified -- specific, measurable, achievable, and compatible.
  - It should be easy to measure and evaluate whether each goal was met.

Examples of goals might be:

- Individual Goals
  - Update segmentation data for all clients in CRM system
  - Project manage a client appreciation event
  - Research different CRM systems and propose changes
  - Pass Series 7 exam
- Team Goals:
  - Hit a \$10M net new AUM goal
  - Achieve a 9/10 or higher score on the client satisfaction survey
  - Complete a Random Act of Kindness for all A+ clients

**COACH TIP:** Once the team member is established in their role, have them create their own goals with manager approval. Give them guidelines that goals must do one of three things:

- Improve the client experience
- Increase office efficiency
- Create capacity (time) for the lead advisor(s) by taking things off their plate

Not only does this take something off of the manager's plate, it's best for the firm because the team knows the unique things that need to get done.

The activity-based bonus system works well for small offices or those who are just getting started with an incentive plan because it is simple and takes relatively little time and effort to administer.

### **Performance-Based Bonus:**

The performance-based bonus is a little more complex to administer, but it can add a "WOW!" element to your incentive plan and encourage your team to rally around a central revenue or AUM goal. In this model, incentive pay is determined by three factors:

1. **Job Classification**, which sets the targeted bonus amount as percentage of base salary.
2. **Individual Performance**, rated from "Needs Improvement" to "Elite," which adds an Individual Performance Multiplier
3. **Company Performance**, which acts a final "Company Performance Multiplier" from 0-130% based on the company achieving its revenue or AUM goals.

We recommend setting goals and paying incentives semi-annually for the performance-based bonus. Here's how it works:

#### **1. Job Classification**

For fairness and equity purposes, each role should be assigned to a job classification level that is consistent across the organization. This is the “target” bonus amount.

- **Level 1:** 10% of base salary. This level typically includes part-time or administrative positions.
- **Level 2:** 15% of base salary. This level typically includes operational or professional positions that do not manage others.
- **Level 3:** 20% of base salary. This level typically includes managers or positions that have a direct impact on the bottom line.

## 2. Individual Performance

At the end of each period, team members are given a rating by their manager on a 5-point scale, which equates to an “Individual Performance Multiplier.” The multiplier is applied to the “target” bonus amount to create the “base” bonus amount for the period. This is where the “WOW!” starts to happen, as someone who is rated highly could receive more than 100% of the target bonus:

- **Needs Improvement ("NI"):** -- The target bonus amount for the period is multiplied by **0%**.
  - *The team member's performance must improve substantially within a short period of time if the stakeholder is to remain in the position. They are not meeting job requirements.*
- **Contributor ("C"):** 75% -- The target bonus amount for the period is multiplied by **75%**.
  - *The internal stakeholder's performance is valued, but can be less than expected. They are learning the essential functions of the job and development is clearly recognized. They generally meet most job requirements but are not fully performing at their potential.*
- **Achiever ("A"):** -- The target bonus amount for the period is multiplied by **100%**.
  - *The team member clearly meets all the requirements of the position in terms of quality and quantity of work. They can be counted on for solid performance with on-time results. This person is a valued member of the team and accepts responsibility when asked.*
- **Top Achiever ("TA"):** -- The target bonus amount for the period is multiplied by **115%**.
  - *The team member often exceeds expectations of their current role. They are engaged in what they do. They are an important member of the team and can always be counted on to get things done. Their actions foster a culture of team work and cohesiveness. They stand out among their peers as someone who is always willing to help out. They can be counted on to be a key member of any project. They enjoy what they do every day and it shows.*
- **Elite ("E"):** -- The target bonus amount for the period is multiplied by **130%**.

- *The team member is a pillar for the firm. Their daily efforts “move the needle” for key initiatives. They exude confidence in their respective role and always go the extra mile when accomplishing tasks. They are positive and always willing to jump in, roll their sleeves up and help out wherever they can. This person embraces change and makes things happen. They are your “go-to” no matter what the task. They are highly engaged in what they do and they create enthusiasm among others. They show initiative without being asked. They love what they do every day and it shows.*

### 3. Company Performance

At the beginning of each period, the firm sets a goal – either revenue growth or AUM – and five multiplier levels, with the “goal” equating to a 100% multiplier.

At the end of the period, a final “Company Performance Multiplier” is applied to the “base” bonus amount based on whether the company fell short of, met, or exceeded its goal.

- Below Level 1 – The base bonus amount for the period is multiplied by **0%**.
- Level 1 – The base bonus amount for the period is multiplied by **70%**.
- Level 2 – The base bonus amount for the period is multiplied by **85%**.
- Level 3 (Goal) – The base bonus amount for the period is multiplied by **100%**.
- Level 4 – The base bonus amount for the period is multiplied by **115%**.
- Level 5 – The base bonus amount for the period is multiplied by **130%**.

Let’s look at an example:

Bob

- Operations Associate
- Base pay of \$40,000
- Level 2 job classification = 15% of base salary bonus potential
- Semi-annual bonus payout schedule

The firm sets a revenue growth goal of 25%, with five associated multiplier levels based on revenue growth achieved:

Revenue Growth	Company Multiplier
10%	70%
17.50%	85%
25%	100%
32.50%	115%
40%	130%

Bob's annual target bonus is **\$6,000**. At the end of the first half of the year, Bob receives a performance rating of **Elite**, which means the target bonus is multiplied by **130%** -- the "Individual Performance Multiplier".

This makes his base bonus amount **\$7,800**.

The company experiences revenue growth of 40%, meaning we apply a "Company Performance Multiplier of **130%**."

This makes the annual bonus amount available **\$10,140**.

Since the firm pays semi-annually, we divide that amount in half, so Bob's mid-year performance bonus is **\$5,070**.

What's the "WOW!" factor? Bob's "target" bonus for mid-year was only \$3,000. But because of his individual performance and company performance, his actual bonus is **\$2,070 greater!** At the end of the year, the process is repeated. Team members are not guaranteed a bonus at the end of the year just because they received a mid-year bonus. Bob is again rated, and the company evaluates whether or not it achieved its goals. If Bob's performance slips or the company falls short of its goals, Bob may receive a lower, or no, bonus.

**COACH TIP:** The performance-based bonus plan gives you flexibility both up and down. It allows you to reward your star performers and give team members the opportunity to share in the company's success; it also controls the risk of being obligated to pay out a bonus during an unprofitable period when other critical expenses like salaries are on the line.

Use our **Performance Bonus Reporting Tool** to calculate bonus payouts for your team using the *performance-based bonus* system.

The *activity-based bonus* and *performance-based bonus* are two plans that work well for advisory firms, but you might find another incentive plan that works well for you. Whatever plan you implement, make sure:

- You reward individual discretionary effort.
- The plan is clearly defined and tied to specific criteria.
- The plan encourages behaviors that are aligned with your overall company goals.
- The plan is understandable and motivational to your team.
- You set goals that are a little bit of a stretch, but still achievable.
- You check in regularly with the individual on progress towards these goals.
- You schedule individual meetings to review performance and bonus earned each period.

Move on to the next lesson to learn how to create a benefit package that makes your total compensation package a competitive one.



## Step 3: Offer a benefit package that makes your firm competitive

To attract and retain the best talent, you need to offer a competitive benefits package.

Certain benefits have become table-stakes in our industry if you want to be able to hire and keep great talent:

Benefit	Standard
Health insurance	At least partially company-paid; may offer both a standard co-pay and high deductible plan.
Retirement savings plan with company match	Minimum 3-4% company match
Paid time off	Minimum 3 weeks per year
Paid holidays	All NYSE holidays
Bereavement leave	Minimum 3-4 days, may define by relationship

### Insurance Benefits

Many small advisory firms are unsure of how they can offer health and other group insurance policies to their team members. You might consider researching either a Professional Employment Organization (PEO) group or a benefit broker. PEOs help organize enrollments and communication, and also help on the administrative side of things.

They can sometimes help smaller firms offer competitive benefits by combining them with other businesses to secure better coverage. If they don't want to use a PEO, you can also look at a benefit broker, who may also be able to help with administration. Connect with small business owners in your area for referrals to PEOs and benefit brokers.

### PTO

PTO is a bank of hours that can be used for vacation or sick time. You can either set up PTO as a lump sum or an accrual system. A lump sum system is fairly straightforward: at the beginning of every year, employees are credited with a lump sum of vacation/sick days added to their PTO bank. As they use PTO throughout the year, they draw down from the bank.

At the end of the year, they may lose remaining PTO, or the policy may allow for a certain number of hours to be rolled over to the next year. With an accrual system, employees accrue PTO in hourly increments throughout the year. For example, an employee with four weeks of paid time off per year who is paid twice per month would earn 6.15 hours per pay period.

Generally under an accrual system, employees have a maximum amount of PTO they can have in their bank at any given time – often 40-80 hours above what they may earn in a year. Most companies will pay out accrued PTO time when employees leave the firm. Check with your state before implementing a PTO system to ensure you are following applicable employment laws.

**COACH TIP:** Given our profession, employer-provided retirement plans with a strong contribution match are definitely expected by employees. After all, if you are going to preach the benefits of saving for retirement to your clients, shouldn't you support your employees in saving for retirement? If you haven't already offered this benefit to your team, make it a top priority.

Other benefits should be added as you can afford them and they are valued by your team. Below are benefits that many firms like Carson offer; even small firms should be aware that they are competing for talent with firms that are offering these types of benefits.

Benefit	Standard / Notes
Dental insurance	At least partially company-paid.
Vision insurance	At least partially company-paid.
Supplemental insurance like hospital, accidental death & dismemberment, and critical illness	Offered at employee's expense. Surprisingly popular.
FSA/HSA	Accounts with fixed employer contribution.
Life insurance	Basic flat amount 100% provided by company.  Additional voluntary amount paid for by employee.
Disability insurance	Both short and long-term paid by company.  Surprisingly low cost to offer.
Professional development reimbursement	\$1500+/year  Think about how much designations you want employees to acquire/hold cost when setting a maximum. The maximum amount should cover those designations.  Set policy for what happens if employee leaves and any expectations for repayment.
Parental Leave	8+ Weeks – Maternity (Paid)  1-4 Weeks – Paternity (Paid)  Consider including benefit for adoption as well.  Typically, the rest of the team is going to pick up the slack, so it's not actually an extra cost.

	Depending on state law and employer size, FMLA or other mandates for job-protected unpaid leave might apply.
Employee Assistance Program	100% employer-provided.  24/7 access to professionals to aid with a variety of personal and professional needs.

Beyond standard benefits, consider adding “perks.” These are great ways for smaller firms to compete with the larger firms that offer larger benefit packages.

- Remote working arrangement/work from home
- Flexible hours
- Summer hours
- Expense reimbursements
- Casual dress code
- Paid time off for community service
- Charitable donation match
- Free/reduced rate advisory and financial planning services
- Free coffee, healthy snacks, and other food and beverage
- Concierge service
- Arranging mobile oil changes, car detailing, and other services
- Dry-cleaning pick-up and drop-off
- Gift-wrapping service around the holidays
- Adoption financial reimbursement
- Wellness reimbursement
- Free swag – shirts, coffee mugs, water bottles, etc.
- Discounts for gyms, cell phone providers, and local businesses
- Tickets to local events
- Regular company-paid team lunches
- Transportation/commuting benefits
- Technology reimbursements or discounts
- Paid parking

Laws surrounding employee benefits can vary by state, so make sure you talk to a good employment attorney.

Once you've determined what benefits and perks you will offer your team members, move on to the next lesson to learn how to best document and present those items.

## Step 4: Document and present your compensation and benefits package

Once you've outlined your compensation and benefits package, you'll want to document them in three areas:

- Offer Letter for New Hires
- Incentive Program Overview
- Benefits & Perks Overview
- Total Compensation Report
- Employee Handbook

The **Offer Letter** you send to new hires should outline the base salary, incentive potential, and highlights of the benefit package offered. For a detailed look at making offers to new hires, see the Carson Coaching Online course on recruiting and hiring team members. [Click here to download a template offer letter.](#)

The **Incentive Program Overview** is a document you can provide to new hires as part of the onboarding process. You will outline the incentive *potential* in the offer letter, but this document should go a little bit more in-depth and clearly outline how your incentive program works so that new hires know what they need to do to increase their chances of receiving a bonus.

The **Benefits & Perks Overview** is a document you can provide to candidates during the hiring process and employees for quick reference. It should be just a quick listing of all of the benefits and perks available. You can view an example Carson Benefits & Perks document [here](#).

Finally, you may consider creating a "**Total Compensation Report**" on an annual basis to distribute to your existing team members. This helps give team members a comprehensive view of their compensation and benefits, along with the corresponding cost to the company to provide the package. If you decide to distribute this report, work with your payroll and/or benefits company to ensure the report is accurate and does not run afoul of any employment regulations.

## Summary:

*Paying your employees well is not only the right thing to do but it makes for good business.*

*-James Sinegal*

Building a competitive compensation package can seem intimidating – especially if you have a small team or are hiring your first employee.

But by thinking of the components of a compensation package as building blocks, you can take one step at a time:

1. Set a good base salary to attract the best people.
2. Implement an incentive plan that aligns with your goals to get your team excited and reward discretionary effort.
3. Offer a competitive benefits package that at least covers the “table stakes” – and more, if you want to keep the best people.
4. Document and clearly communicate what you’re offering in exchange for your team’s time, talent, and expertise.

Take the time to be intentional in designing a compensation package that makes your firm stand out in a sea of financial services employers. You’ll be glad you did!

## FAQs:

- Should I offer “Unlimited” PTO?
  - Perhaps. It’s definitely easier from an administration side, but you have to make sure your team is responsible enough to handle it. There is also some evidence that employees who are covered by unlimited PTO policies actually take *less* time off, so while it sounds great in theory, it may not be the healthiest option to offer.
- What about holiday bonuses?
  - Holiday bonuses can be a nice gift to give your team – but that’s exactly what they are – gifts, not incentives. If a holiday bonus is the only bonus pay you are currently offering, consider adding or redirecting a large part of those funds to a more structured performance or activity-based bonus program so that your team can clearly see the link between their performance and the incentive pay.

## Resources:

Learn more and download the resources referenced in this document from the [Team Compensation and Benefits](#) course in Carson Coaching Online.

- **Activity Based Performance Tracker**
- **Performance Bonus Reporting Tool**
- **Offer of Employment Template**
- **Carson Benefits and Perks**
- **Total Compensation Report**
- **Employee Handbook**