Advisor Compensation Workbook

There is no single, best advisor compensation package that works for every firm – we've seen many different examples that work well. How your firm structures a compensation structure should be firmly rooted in your compensation philosophy and what you are looking to achieve, with a few critical caveats.

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1. A base salary is critical to controlling the client experience by making the advisor a firm employee
2. Be careful of going above standard industry benchmarks (30% of revenue) for total advisor compensation.
3. You must tailor the compensation to the role and what the objectives are for that role.

To develop an advisor compensation package, go through 6 steps:

1. Define target compensation
2. Determine the compensation breakdown between salary, revenue split, and bonus
3. Decide if, when and how to add profit sharing or equity
4. Determine an agreement for existing assets an advisor brings to the firm
5. Calculate the financial impact to your firm
6. Document and clearly communicate the compensation plan

We provide different approaches and tips for each step below – your Carson Business Coach can help you work through each component to determine a custom, scalable plan for your firm.

Define Target Compensation

1. Revenue Managed:
   - How much client revenue will this role directly manage?
   - Multiply revenue managed by 30%

   Target compensation based on revenue managed: ____________________

2. Benchmarking Data:
   - Review industry benchmarking reports for similar roles and responsibilities
   - What is third-quartile total income listed? (Hire best/pay best)
   - Adjust for regional differences as needed

   Target compensation based on benchmarking data: ____________________

   Target compensation range: ______________________________________

COACH TIP: Total compensation is 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. You don't want to get in a situation where you are forced to reduce advisor compensation.

Determine Compensation Breakdown

Component 1: Base Salary

1. Stable Income Percentage Approach:
   - Based on your firm philosophy, what percentage of the role should be stable income vs. variable compensation?
   - 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?

   Target base salary based on stable income % approach: ____________________

2. Role Comparison Approach:
   - Select another role in your firm – Operations Associate, DFI, etc. What is the base salary for the selected role?
   - 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?
   - Adjust salary from comparison role to advisor role by the percentage amount

   Target base salary based on role comparison approach: ____________________

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

   Target base salary based on minimal salary approach: ____________________

4. Multiple Hats Approach:
   - What is the industry standard salary for a similar advisor role?
   - What other roles in the firm will this person be filling?
   - What is the industry standard salary for this role? (Role #2)
   - What percentage of time will this person spend on advisor duties vs. Role #2?
   - Multiply percentage advisor time by advisor standard comp; multiply percentage Role #2 time by Role #2 salary; add the two figures
   - Adjust as needed to retain key talent

   Target base salary based on multiple hats approach: ____________________

   Target base salary range: ____

Determine Compensation Breakdown

Component 2: Revenue Split

1 Simple Approach:

- Take the target compensation range & subtract the target base salary range plus expected benefit costs
- Divide that number by the total revenue managed
- Target revenue split based on simple approach: ____________________

2 Team-Based Revenue Split Approach:

- Based on your current structure, will there be multiple layers of advisors managing a client? (AWA/WA/SWA)
- In your future team structure, will there be multiple layers of advisors managing a client? (AWA/WA/SWA)
- What are the total base salaries plus anticipated benefit costs for the team of advisors who will be serving this group of clients?
- Subtract the S&B number from 30% of revenue managed
- What percentage of total revenue remains?
- How should that percentage be divided between the roles on the team?

Target role-specific revenue split based on team approach: ____________________

Target base salary range: ____________________

Component 3: Bonus

1 Business Development Incentive:

- Will this role be expected/rewarded for generating new clients for the firm?
- What is your average cost of new client acquisition for firm-generated leads?
- What percentage of an average client's annual revenue is that?
- Do you want to pay business development incentives in a lump-sum up front or over time?
- What NNA amount could be reasonably expected of an advisor in this role when it comes to business development?

Target business development incentive: ____________________

2 Servicing Advisor Incentives:

- What amount would you like to make available for outstanding performance?
- In what areas will the advisor have goals?
- Retention
  - » Capturing greater share of wallet
  - » Referrals
  - » Firm initiatives

Target servicing advisor incentive: ____________________

Target bonus compensation: ____________________

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Decide If, When & How to Add Profit Sharing or Equity

Note: Adding profit sharing or equity to a compensation plan should be thoroughly analyzed before implementing. Please consult with your Carson Business Coach and tax/ legal experts in your state.

1. What is the goal of profit sharing or equity?
   - Increased income for the advisor
   - Help advisor feel like a part of the team
   - Key employee retention
   - Succession planning
   - Other
2. Has your firm been in a financially-stable (profitable) position for at least 3 years?
3. How much TOTAL equity or profit as a percentage would you be willing to sell or grant at this point in time?
4. What percentage of that above amount would you like to reserve for other key employees/advisors or future hires?
5. Has the advisor been with the firm at least 5 years?
6. Is the advisor self-sufficient? Could they go out and be a competitor right away?
7. Does the advisor have the financial resources to buy in to the firm?
8. Are you willing to provide or arrange for financing to help the advisor buy in to the firm?

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.

Determine Existing Assets Agreement

1. Review the existing client and account list. Do these align with your firm's ideal client profile and service offerings?
2. What was the advisor netting on those assets at the old firm, after all expenses? Will that be covered by the new salary?
3. Will the advisor continue to "own" those relationships if they leave the firm?
4. Are you willing to buy those assets so that the firm owns them?

COACH TIP: Don't pay a higher revenue split on existing assets an advisor brings with them -- if its 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.

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Calculate Financial Impact

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?
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?

COACH TIP: These calculations help you understand both the upside potential 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.

Document and Communicate

1. What is the total compensation package for this role?
   - Base Salary: $ ______________________________
   - Revenue Split: % ______________________________
   - Incentive Pay: ______________________________

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   - 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. Ask your coach or study group to poke holes in your plan documentation. If something is unclear, fix it now to prevent future headaches.