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BROKER’S WORLD: Broker Compensation Leans Toward Cash

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NEW YORK (Dow Jones)--When it comes to brokers’ pay, cold cash is now what it's all about.

The financial crisis is squeezing brokers' production and hammering their holdings in their companies' stocks. Most major brokerages are recognizing that in their compensation plans for 2009.

Those plans, reviewed by Dow Jones Newswires, are edging away from loads of stock options and deferred comp and focusing instead on their upfront cash grid.

The average $500,000 or $600,000 producer, for example, might be best off at Wells Fargo & Co.'s (WFC) Wachovia this year, as it would offer 43.8% of production on its unique basic cash grid for compensation.

Brokers are paid on a commission-only basis, taking home anywhere from 20% to 50% of the fees and commissions they generate annually.

The biggest brokerages - Morgan Stanley (MS), UBS AG (UBS), Wachovia, Citigroup Inc.'s (C) Smith Barney and Bank of America Corp.'s (BAC) Merrill Lynch - offer comparative payouts. But a difference of one or two percentage points can be significant.

Percentages change year to year, generally with increases for the $1 million-and-up producers and decreases for those who fall below the $400,000 mark.

"In tough times, in down markets, lower performers are usually hit the hardest, so that is unfortunately likely to continue for the next few years," said Alan Johnson, compensation consultant with Johnson Associates.

Top producers - the rare few who bring in $5 million or more - could bank at Bank of America Corp.'s (BAC) Merrill Lynch, where they would take home a basic cash payment of 50% of production.

While the little guys, generating $300,000 in production, will likely be safest at Wachovia as well, where they would keep nearly 40% of their production regardless of how many years they've been at the firm.

Facing Penalty Boxes

Some brokerages have "penalty boxes," which lower the basic payout of brokers who have been in business too long, in executives' opinions, to be producing so little.

The penalty boxes often allocate a percentage too low for brokers to make an adequate living. Companies that use them are getting more aggressive with this type of disincentive.

"The penalty box keeps rising, and it's obvious that this is becoming strictly a high-net-worth business," a million-dollar producer at Morgan Stanley said.

Merrill Lynch, Morgan Stanley, UBS and Smith Barney all enforce penalty boxes. For example, if a broker has been in business for more than five years and is producing under $200,000 a year, he will only take home 20% of production at Merrill Lynch. A broker producing the same amount, who has only been around four years, would take home 36% of production on Merrill's grid.

Johnson said it might be time to do some spring cleaning at the firms.

"These firms have too many mediocre brokers, so it only makes sense that they have to weed people out," he said.

Wachovia, however, does not have a penalty box. "We do not penalize brokers with long length of service," said Tony Mattera, spokesman for Wachovia.

Wachovia's grid gives all advisors a basic cash payout of 24% of the first $10,000 they produce each month, and 50% of all production beyond that hurdle.

Rewarding Rising Stars

Just as veteran brokers are penalized for not bringing in enough business, sometimes the rookies are rewarded for rising quickly.

At Morgan Stanley, for example, brokers with less than six years' experience bringing in $150,000-$300,000 in production can receive an extra two to three percentage points for their fast success.

The rising star programs have been popular among firms looking to generate talent from within their own ranks, rather than having to pay high prices for luring talent from competitors.

Smith Barney also has a rising star program, rewarding rookie brokers with less than five years' experience by guaranteeing them at least a 37% of production payout.

"In a difficult year, we focused on preserving the core components of Smith Barney's (pay plan.) It's a simple plan, rewards advisors for doing the right thing for clients, and allows us to invest in our most productive, loyal and tenured advisors," said Alex Samuelson, spokesman for Smith Barney.

Merrill Lynch, Morgan Stanley and UBS spokespeople declined to comment on their compensation grids.

More For Your Money

Morgan Stanley, Merrill Lynch and UBS all pay a higher percentage of payout for certain types of business, such as fee-based and advisory accounts. Wachovia pays an increased payout for business in its "4Front" client loyalty program, which is also fee-based.

"Fee-based business has been a growing trend for the past ten years," said recruiter Toby Richey, president of Toby Richey & Associates, Inc. "A real incentive of the fee-based model is the consistent income, not the point or two increase in payout."

Most companies also offer longevity bonuses for brokers who have been with the firm for many years. Smith Barney, for example, offers an additional 1.5% to 5% of production and Merrill Lynch offers an extra 1% to 2% of production for brokers with five or more years of service.

Brokers can also boost their payout by growing their production from last years' numbers and receiving a growth award, such as the one Morgan Stanley is offering this year.

But there are things to watch out for at some firms, like minimum account balances and transaction fees, from which brokers can either get paid smaller commissions or not paid at all.

Moving Parts

While the money means a lot to brokers who are strapped for cash in this financial crisis, a compensation grid is hardly a reason to move firms.

Most brokers are moving for the hefty signing bonuses they can receive, which are exceeding 200% of annual production.

"With transition deals where they are, a couple percentage points on the payout grid isn't really a deal killer," Richey said.

One broker, who has been in the business for more than 20 years, and has worked at three different brokerage houses, said management or investment platforms can also play a part in a brokers' decision to move.

"All the firms' payout grids are so close, and they change pretty much every year, so its not really something to move on," the broker said.

However, he added, that it's always cause for complain when the plans come out at less than they expected. "It's all about keeping up with the Joneses."

(STREET MOVES chronicles the migration of executives on Wall Street, with a particular emphasis on financial advisors with more than $1 million in annual production and who manage more than $100 million in client assets.)