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Compensation: How RIA firms are attracting and retaining top-tier talent

Results from the 2014 RIA Benchmarking Study from Charles Schwab

MKT Market Knowledge Tools

As the RIA industry has grown and matured, individual advisory firms have grown in both size and complexity. This is evidenced by the fact that more than one-third of firms participating in Schwab's 2014 RIA Benchmarking Study have doubled their assets under management (AUM) and revenues since 2009. This represents a 15% or greater compound annual growth rate during this period, and many firms are growing between 12% and 15%, suggesting they will soon double in size from the 2009 base period.[1]

As a result, many advisors are now much more focused on talent management, and there is an increasing demand for quality staff at all levels. To help advisory firms address these challenges, Schwab Advisor Services™ added a compensation component to its annual RIA Benchmarking Study.

We designed the study to provide detailed information and insights on a wide range of topics that are important to advisors. With 7,962 total responses across 21 roles typically found at RIA firms, Schwab's 2014 RIA Benchmarking Study is the leading study of compensation data in the RIA industry. Given that compensation typically accounts for approximately three-quarters of an advisory firm's total expenses, the importance of having a well-planned and well-executed compensation strategy cannot be overemphasized.

Compensation that supports growth

While the success of advisory firms continues to attract talented people to the industry, we do see a trend that firms are beginning to look to other RIA firms for talent. Results of the 2014 RIA Benchmarking Study show that 50% of new hires in 2013 left one RIA firm to join another.

Experienced professionals are in high demand, which is demonstrated by rising median salaries. In 2013, a Client Account Manager (Relationship Manager) earned $139,633 in total cash compensation at the median. Portfolio Managers and Financial Planners were paid a median total cash compensation package of $145,000 and $86,375, respectively. Firms are also adopting more complex organizational structures to help them manage their rapidly growing businesses more efficiently. For example, dedicated management positions such as Chief Operating Officer, Chief Investment Officer, and Chief Compliance Officer are seen at nearly 50% of firms with over $1 billion in assets. Additionally, firms are looking outside the RIA industry for highly skilled professionals with similarly focused, high-touch service models. Of firms in the study, 79% had a least one CFP on staff, 65% had at least one CFA, and 51% had at least one CPA.

79%
of firms have at least one CFP on staff

65%
of firms have at least one CFA on staff

51%
of firms have at least one CPA on staff

In order to attract and retain strong talent, it is important for a firm to be profitable, growing, and mindful of its culture. Growth is an imperative; it creates opportunity, and opportunity attracts high-potential individuals. Successful employees and leaders in turn create capacity for growth and the desire for even more growth. A firm has to continue to adapt and change by strategically building the appropriate infrastructure to support growth, and its compensation philosophy is a key component.

Planning is essential

Firms must have a well-designed compensation plan in place—one that is cost-effective yet competitive.

To develop an effective strategy to attract, motivate, and retain outstanding people, firms must structure their compensation and incentive plans in ways that generate real value to employees across the entire organization. This takes careful planning. Without a well-thought-out compensation strategy that aligns with their strategic plan, firms will find it increasingly difficult to build and maintain the level of human capital that is vital for creating an enduring business.

Some best practices in creating and implementing a successful compensation plan include:

1. Linking a firm's compensation plan to its business strategy
2. Offering distinct and attractive compensation beyond base salary
3. Integrating key employees into the ownership or partnership structure

High-performing firms excel at planning

The culture, goals, and strategy underlying a firm's human capital investment are critical. High-performing firms place a special emphasis on employee compensation and consider it a true investment in the firm's future. The way firm owners choose to compensate employees can directly affect motivation, productivity, employment costs, and the quality of talent the firm is able to attract and retain—all of which ultimately affect the firm's profitability, growth, and sustainability.

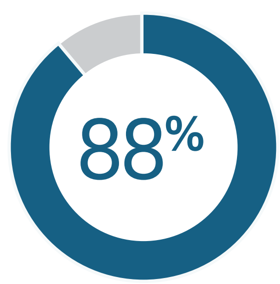
High-performing firms often excel at designing a compensation plan and business strategy that are in strategic alignment, resulting in greater profitability and operational efficiency. Linking compensation with performance goals reinforces specific skills that help the firm achieve its vision and motivates employees to internalize that vision, resulting in a positive effect on profits and earnings.

Developing an attractive compensation plan

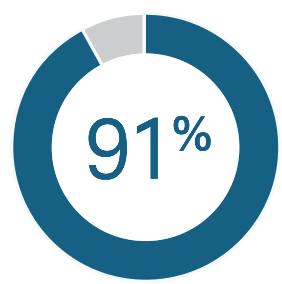
Effective compensation plans are structured to acquire employees with specific skills externally in the market. However, you should not overlook the opportunity to incentivize employees to build those skills. It might make the difference between staying with your firm and searching out new opportunities. In fact, talent loss is a major concern across the financial services industry.

Attractive compensation plans should include the creative use of incentive compensation, benefits packages, non-cash compensation, and a formal path to partnership. In general, base salary is the reward for expected job performance, while incentives recognize performance beyond base expectations.

Incentives that align with firm goals



Percentage of total compensation provided by base salary*



Percentage of employees who received incentive compensation in 2013

*Includes owner profit distributions

Across the study, base salary made up 88% of total cash compensation in 2013. The vast majority (91%) of employees also received some form of incentive compensation in 2013. Eighty percent of firms provide medical insurance to their employees, while nearly half provide dental insurance, long-term disability, and fully paid maternity/paternity leave. Defined contribution plans, such as 401(k) and profit-sharing plans, are offered by 73% and 41% of firms, respectively.

There are three primary components that should be considered when making up a structured base compensation system:

1. Clear job descriptions and responsibilities
2. Market-determined base compensation
3. Regular reviews and adjustments

Incentivizing the firm's strategic goals

Incentive compensation plans provide the strongest link between a firm's strategic goals and employee behavior. The strategic goals of high-performing firms translate into assigned responsibilities and measurable outcomes. The use of incentive compensation plans can directly contribute to increased firm productivity and, as a result, higher margins.

Once compensation plans are set, firms regularly monitor their plans to make sure they continue to be aligned with their growth strategy and vision. They also conduct regular performance evaluations to reinforce the aims of their compensation programs, ensuring that career development goals are set, clearly communicated, and accurately measured. Finally, they confirm that firms reward behavior consistent with their strategic objectives.

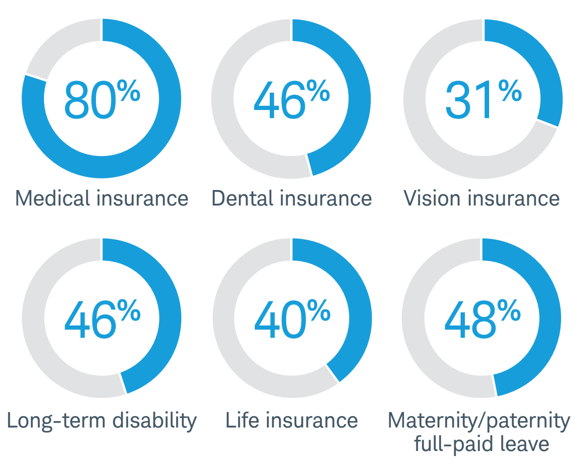
The strategic value of a path to partnership

Firms that create a path to partnership view it as a crucial step in establishing a sustainable business and creating better outcomes. By broadening ownership internally, founders share workload and spread responsibilities for the health of the business to new owners. As a consequence, this can result in greater long-term growth and increased return on owner equity. One result is that the value of the firm increases, which pays dividends to firm owners, their clients, and their employees. At firms with more than $1 billion in assets, twice as many professional staff are equity stakeholders, compared with firms with $250 million to $500 million in assets. This is the natural progression that many firms realize as they create the conditions to expand employee ownership as the firm grows. Though it may be counterintuitive, by sharing equity with key people, controlling partners may increase the value of their interest in the firm. Your ownership share, though smaller, has the potential to produce a greater return over time because more people are invested in seeing the firm grow and thrive. Expanding ownership in a professional services firm often spurs additional growth, because more people feel responsible for, and enjoy the benefit of, the firm's growth.

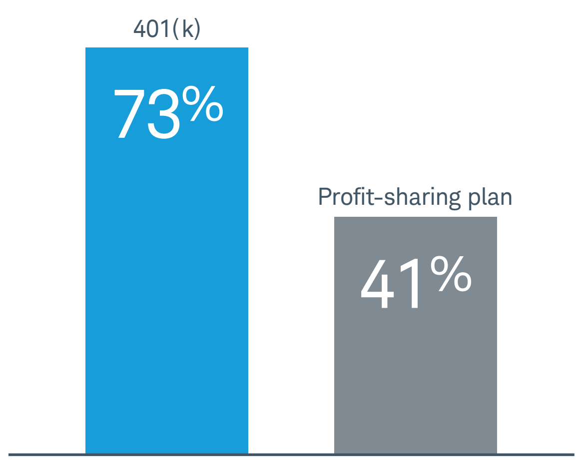
A formal path to partnership affects a firm's overall compensation policy as well as its ability to develop other staff. It sets the tone for the entire firm, recognizes individual roles and contributions, and distinguishes rewards for labor from rewards for ownership. Furthermore, compensating owners in a manner that is consistent with their role and contribution better positions the firm to incorporate new partners or transition the business to new owners.

Elements of attractive compensation plans

Percentage of firms providing common benefits



Percentage of firms providing a defined contribution plan



The prospect of equity ownership is both a driver for key employees and a business-building strategy for the owners of an RIA firm that is experiencing rapid growth and increasing complexity. In 2013, 32% of firms with more than $1 billion in assets added new equity owners. As firms evolve through their life cycle, expanding ownership can significantly contribute to firm growth and help the advisory firm to sustain itself from within.

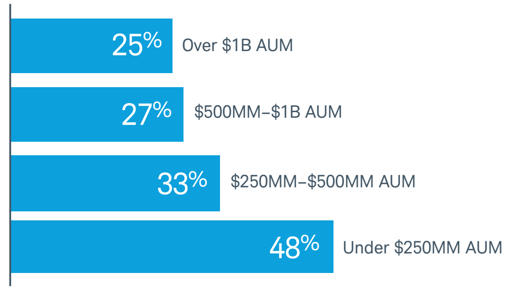
Many firms are elevating the second and third generations of principals who are emerging as the future leaders for the business. Rather than transfer control and ownership to third parties, most founders wish to transfer ownership gradually to insiders. This suggests that founders and principals not only want their firms to endure, but also seek continuity of people, culture, and values. Firms seeking to add new owners should consider whether those employees add value both financially and in the decision-making process. For the firm that may want to seek outside investors, the employee ownership model is a significant value driver, as it helps to ensure continuity of the business.

Looking ahead

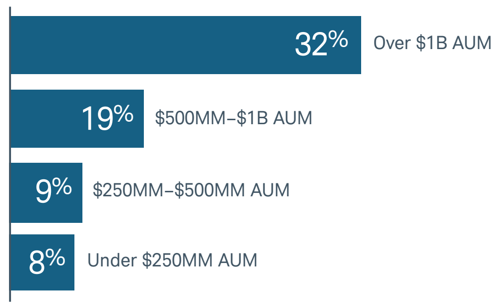
A profitable industry with high margins will continue to attract new entrants, and advisors are aware that competition will change the landscape. We believe that firms will experience greater competition for experienced employees who want to join well-managed, growing firms that present the greatest opportunities. Compensation will continue to be the largest expense for most firms and serve as a critical tool to attract, motivate, and retain superior staff. Those firms that apply best practices in compensation and recognize that creating a formal path to partnership is a vital investment for firm growth will continue to prosper and endure.

A path to partnership

Owners as a percentage of total staff in 2013



Firms that added new owners in 2013



About the 2014 RIA Benchmarking Study from Charles Schwab

Schwab designed this study to capture insights in the RIA industry, based on survey responses from individual firms. The 2014 study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. A total of 1,132 advisory firms representing three-quarters of a trillion dollars in AUM that custody their assets with Schwab participated this year, making this the leading study in the RIA industry.

The RIA Benchmarking Study comprises self-reported data from advisory firms that custody their assets with Schwab. Schwab did not independently verify the self-reported information. Participant firms represent various sizes and business models. The 2014 RIA Benchmarking Study collected detailed compensation information from 897 advisory firms representing 7,962 employees across 21 roles typically found at RIA firms.

Compensation details for each role are reported with base salary, additional compensation (incentive compensation and compensation tied to revenue), and total cash compensation independently. Total cash compensation is calculated as the median of the total cash compensation reported for each response (base salary plus additional compensation) and not as the sum of the medians of base salary and additional compensation (incentive compensation and compensation tied to revenue.) Base salary and additional pay are representative of only those positions reporting pay for that compensation component.

The study is part of Schwab's Business Consulting Services, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting Services provides insight, guidance, tools, and resources to help you strategically manage and grow your firm.

About Schwab Market Knowledge Tools® (MKT)

Based on the leadership position of Charles Schwab & Co., Inc. in the RIA marketplace (nearly 7,000 advisors and over 25 years as of this printing), we are in a position to observe what works in successful advisory firms. Through Schwab's proprietary benchmarking and in-depth qualitative research with successful firms, we are able to discover and share best practices.

This white paper is part of the Schwab MKT series, an ongoing program of industry research reports, white papers, and guides from Schwab designed to keep investment advisors on the forefront of trends and competitive challenges facing the industry today. The MKT program delivers the kind of relevant and timely information needed for business planning.

For More Information

To learn more about the Schwab RIA Benchmarking Study and other Business Consulting resources, or if you are a Schwab client and would like to participate in the next RIA Benchmarking Study, please contact your relationship manager.

National compensation results

All dollar amounts are in thousands

		Client Account Management, Sales and Marketing					
		Head/Director of Client Service			**Client Account Manager/ Relationship Manager**		
		PERCENTILES			PERCENTILES		
		20TH	**50TH**	**80TH**	**20TH**	**50TH**	**80TH**
Summary	Base salary	$58	$101	$198	$56	$99	$168
	Total cash compensation	$68	$129	$286	$74	$131	$238
	Total cash compensation (including owner profit distributions)	$68	$137	$343	$74	$140	$257
Incentive compensation	Responses with incentive compensation		90%			83%	
	Discretionary	$5	$15	$73	$5	$15	$45
	Performance-based	$8	$23	$90	$6	$19	$50
Compensation as a percentage of revenue	Responses with compensation tied to revenue		10%			17%	
	Percentage of new client revenue paid		Insufficient data		19%	30%	50%
	Percentage of existing client revenue paid		Insufficient data		7%	30%	50%
Ownership details	Total responses with ownership		45%			27%	
	Less than 5% ownership		26%			41%	
	5% to 24% ownership		39%			34%	
	25% to 49% ownership		11%			13%	
	50% or more ownership		24%			12%	
Years of experience	Less than 10 years		24%			35%	
	10 to 20 years		37%			40%	
	More than 20 years		38%			25%	
Certifications	Chartered Financial Analyst (CFA)		6%			11%	
	Certified Financial Planner (CFP)		27%			47%	
	Certified Public Accountant (CPA)		12%			12%	

						Investments								
Business Development Professional			**Marketing Professional**			**Investment/ Portfolio Manager**			**Financial Planner/ Wealth Manager**			**Research Analyst**		
PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES		
20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH
$32	$82	$138	$43	$55	$85	$60	$110	$185	$52	$73	$105	$50	$75	$114
$71	$125	$233	$47	$66	$120	$82	$136	$248	$60	$85	$140	$55	$85	$141
$73	$125	$249	$47	$66	$120	$82	$145	$275	$60	$86	$149	$55	$85	$141
75%			94%			91%			90%			97%		
$5	$13	$35	$3	$5	$17	$6	$20	$68	$3	$6	$20	$3	$8	$20
$16	$43	$109	$3	$5	$17	$7	$23	$62	$3	$7	$17	$4	$11	$39
25%			6%			9%			10%			3%		
20%	29%	50%	Insufficient data			20%	50%	75%	10%	25%	37%	Insufficient data		
12%	20%	34%	Insufficient data			19%	50%	60%	3%	26%	44%	Insufficient data		
18%			4%			34%			15%			7%		
30%			50%			23%			16%			72%		
35%			25%			37%			40%			28%		
22%			25%			15%			19%			0%		
14%			0%			25%			25%			0%		
37%			66%			31%			60%			66%		
40%			20%			37%			27%			25%		
22%			14%			32%			12%			8%		
5%			1%			38%			4%			32%		
17%			5%			16%			57%			6%		
6%			1%			7%			14%			2%		

National compensation results (continued)

All dollar amounts are in thousands

		Investments: Trader 20TH	Trader 50TH	Trader 80TH	Operations Manager 20TH	Operations Manager 50TH	Operations Manager 80TH
Summary	Base salary	$48	$62	$87	$53	$73	$95
	Total cash compensation	$52	$68	$100	$59	$80	$113
	Total cash compensation (including owner profit distributions)	$52	$68	$100	$59	$80	$115
Incentive compensation	Responses with incentive compensation	98%			97%		
	Discretionary	$3	$7	$13	$3	$8	$20
	Performance-based	$2	$5	$12	$4	$8	$19
Compensation as a percentage of revenue	Responses with compensation tied to revenue	2%			3%		
	Percentage of new client revenue paid	Insufficient data			Insufficient data		
	Percentage of existing client revenue paid	Insufficient data			Insufficient data		
Ownership details	Total responses with ownership	5%			8%		
	Less than 5% ownership	80%			64%		
	5% to 24% ownership	20%			36%		
	25% to 49% ownership	0%			0%		
	50% or more ownership	0%			0%		
Years of experience	Less than 10 years	57%			43%		
	10 to 20 years	29%			42%		
	More than 20 years	13%			15%		
Certifications	Chartered Financial Analyst (CFA)	5%			1%		
	Certified Financial Planner (CFP)	3%			4%		
	Certified Public Accountant (CPA)	1%			3%		

			Compliance and Administration											
Portfolio Administrator/ Accountant			**Head/Director of Human Resources**			**Office Manager/ Administrator**			**Executive Assistant**			**Internal Accountant/ Bookkeeper**		
PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES		
20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH
$41	$51	$65	$62	$85	$132	$40	$50	$73	$40	$49	$63	$44	$60	$83
$45	$57	$74	$69	$99	$154	$41	$57	$81	$41	$52	$69	$47	$63	$95
$45	$57	$74	$69	$99	$155	$41	$57	$82	$41	$52	$69	$47	$63	$95
99%			100%			98%			97%			99%		
$2	$5	$10	$3	$10	$23	$2	$5	$10	$2	$3	$8	$2	$5	$12
$1	$4	$8	Insufficient data			$2	$5	$9	$1	$3	$10	$1	$3	$8
1%			0%			2%			3%			1%		
Insufficient data			N/A			Insufficient data			Insufficient data			Insufficient data		
Insufficient data			N/A			Insufficient data			Insufficient data			Insufficient data		
1%			14%			4%			2%			6%		
92%			100%			50%			88%			75%		
0%			0%			21%			13%			0%		
0%			0%			7%			0%			25%		
8%			0%			21%			0%			0%		
59%			32%			46%			47%			36%		
28%			41%			37%			37%			35%		
13%			27%			17%			15%			29%		
0%			0%			0%			0%			0%		
3%			0%			2%			0%			1%		
2%			0%			1%			0%			20%		

National compensation results (continued)

All dollar amounts are in thousands

		Compliance and Administration					
		Network Administrator/ IT Support			**Receptionist**		
		PERCENTILES			PERCENTILES		
		20TH	**50TH**	**80TH**	**20TH**	**50TH**	**80TH**
Summary	Base salary	$59	$77	$103	$30	$37	$45
	Total cash compensation	$64	$85	$124	$32	$40	$50
	Total cash compensation (including owner profit distributions)	$64	$86	$124	$32	$40	$50
Incentive compensation	Responses with incentive compensation	97%			98%		
	Discretionary	$3	$7	$14	$1	$3	$5
	Performance-based	$3	$7	$17	$1	$3	$6
Compensation as a percentage of revenue	Responses with compensation tied to revenue	3%			2%		
	Percentage of new client revenue paid	Insufficient data			Insufficient data		
	Percentage of existing client revenue paid	Insufficient data			Insufficient data		
Ownership details	Total responses with ownership	6%			0%		
	Less than 5% ownership	86%			100%		
	5% to 24% ownership	14%			0%		
	25% to 49% ownership	0%			0%		
	50% or more ownership	0%			0%		
Years of experience	Less than 10 years	39%			65%		
	10 to 20 years	45%			23%		
	More than 20 years	16%			11%		
Certifications	Chartered Financial Analyst (CFA)	0%			0%		
	Certified Financial Planner (CFP)	0%			0%		
	Certified Public Accountant (CPA)	1%			0%		

Company Management

Chief Executive Officer/President			Chief Compliance Officer			Chief Investment Officer/Director of Research			Chief Operating Officer			Managing Partner		
PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES			PERCENTILES		
20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH	20TH	50TH	80TH
$114	$221	$317	$69	$100	$153	$120	$168	$250	$91	$150	$200	$67	$175	$275
$150	$260	$450	$80	$116	$198	$138	$208	$336	$119	$186	$271	$105	$244	$388
$200	$372	$674	$82	$122	$226	$146	$260	$450	$120	$192	$304	$159	$313	$598
89%			94%			93%			96%			86%		
$25	$98	$200	$5	$14	$33	$15	$43	$119	$13	$30	$62	$25	$65	$155
$19	$50	$185	$6	$14	$50	$11	$31	$74	$10	$25	$70	$19	$85	$202
11%			6%			7%			4%			14%		
41%	83%	100%	Insufficient data			Insufficient data			Insufficient data			29%	34%	69%
23%	50%	100%	Insufficient data			Insufficient data			Insufficient data			22%	38%	60%
89%			29%			62%			52%			94%		
2%			23%			13%			36%			10%		
10%			53%			45%			41%			24%		
18%			14%			30%			14%			30%		
71%			9%			13%			8%			36%		
4%			25%			13%			14%			5%		
24%			40%			44%			47%			36%		
72%			35%			43%			38%			58%		
14%			7%			52%			7%			18%		
42%			15%			26%			19%			38%		
18%			13%			6%			12%			17%		

1. All firms in the study that manage $250 million or more in assets were examined as a group with regard to their self-reported AUM compound annual growth rate (CAGR) over the 4-year period from the beginning of 2010 to the end of 2013. Firms with a historical 4-year CAGR of 7% or greater–representing both market performance and organic growth–are projected to double in size by the end of 2019 if they continue a similar trajectory to what they experienced from the beginning of 2010 to the end of 2013. Past performance is no guarantee of future results. From the beginning of 2010 to the end of 2013, the 4-year asset allocated CAGR was 7.7% at the median.

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