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FINANCIAL PLANNING CAREER PATHS

BUILDING MORE SUSTAINABLE
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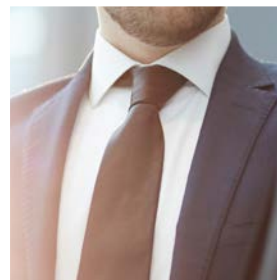
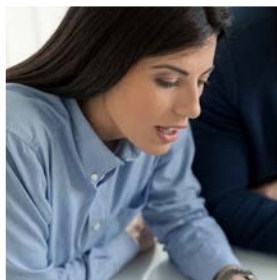
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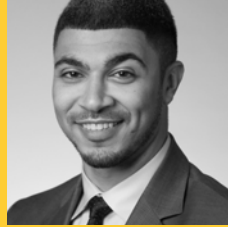


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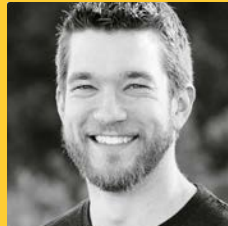
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TABLE OF CONTENTS

- CFP Board Center for Financial Planning’s Workforce Development Advisory Group Members 3
- Introduction 6
- Executive Summary 8
- 1 Role and Purpose of Career Paths in Financial Services 10**
 - Why Professionals Need Career Paths 11
 - Managing Expectations..... 12
 - Should Everyone Travel the Full Length of the Career Path? 14
 - Communicating Career Paths..... 15
 - An Overview of Functional Groups in Financial Advisory Firms..... 18
 - Investment Functional Group Career Path..... 19
 - Operations Functional Group Career Path..... 20
- 2 Climbing the Five Rungs of The Financial Planning Career Ladder 22**
 - Positions on the Financial Planning Career Path..... 23
 - Promotions on the Financial Planning Career Ladder 28
 - Analyst..... 29
 - Job Responsibilities..... 29
 - Associate Advisor..... 35
 - Service Advisor..... 41
 - Lead Advisor/Managing Director 47
 - Principal/Partner..... 55
- 3 Career Path in Practice-Building Retail 64**
 - An Overview: Three Career Stages..... 65
 - Training Stage..... 67
 - Practice-Building Stage..... 68
 - Team-Building Stage..... 69
- 4 Compensation for Financial Planners 72**
 - The Role of Business Development and Client Ownership..... 73
 - The Components of Compensation 74
 - Salary-Based Compensation Method..... 76
 - Payout Compensation Method (Percentage of Revenue)..... 78
 - Compensation’s Role in Creating Diversity 82
- Appendix 84
 - Participating Firms and Professionals..... 85
 - About the Research 86
 - About the Researcher..... 86
 - About CFP Board 86
 - About the CFP Board Center for Financial Planning 86

LIST OF TABLES, FIGURES AND CASE STUDIES

TABLES

TABLE 2.1: Analyst, the first rung of the financial planning career ladder 23

TABLE 2.2: Associate Advisor, the second rung of the financial planning career ladder 24

TABLE 2.3: Service Advisor, the third rung of the financial planning career ladder 25

TABLE 2.4: Lead Advisor/Managing Director, the fourth rung of the financial planning career ladder 26

TABLE 2.5: Principal/Partner, the fifth rung of the financial planning career ladder..... 27

TABLE 2.6: Promotion considerations on the financial planning career ladder 28

TABLE 2.7: Median base salary and incentive salary for Analysts 34

TABLE 2.8: Median base salary and incentive salary for Associate Advisors..... 39

TABLE 2.9: Median base salary and incentive salary for Service Advisors..... 45

TABLE 2.10: Median base salary and incentive salary for Lead Advisors/Managing Directors 53

TABLE 2.11: Median base salary and incentive salary for Principals/Partners..... 61

TABLE 4.1: Average payout by practice size of the four largest practice-building organizations..... 79

TABLE A1: One-page career path for financial advisors 84

FIGURES

FIGURE 1.1: Functional groups found in financial advisory firms 18

FIGURE 3.1: Career path for financial advisors in practice-building organizations..... 66

FIGURE 3.2: Team career path for financial advisors in Ensemble practices..... 66

FIGURE 3.3: Optimal organizational structure of a team-based practice..... 70

FIGURE 4.1: Compensation system components for financial advisors..... 74

FIGURE 4.2: Median incentive compensation for career path positions..... 75

FIGURE 4.3: Total cash compensation by position in salary-based systems 77

CASE STUDIES

Plante Moran..... 13

Urban Wealth Management..... 15

Vanguard 16

Aspiriant.....17

Carson Wealth 31

Schwab Private Client 32

Yeske Buie..... 34

Altair 38

6 Meridian..... 40

Moss Adams 46

Tolleson Wealth Management..... 58

Moneta..... 62

Merrill Lynch..... 66

Northwestern Mutual 68

Raymond James..... 76

INTRODUCTION

The CFP Board Center for Financial Planning was launched to address a significant challenge facing the financial planning profession: an aging workforce that is shrinking and lacks diversity at a time when consumer demand for personal financial planning advice has never been greater or more varied. The Center is serving as a catalyst to convene all corners of the profession and beyond to address this challenge by creating a more diverse and sustainable financial planner workforce.

Early in the Center's work, we heard from a wide range of stakeholders within and beyond financial planning that a significant challenge facing our profession is the lack of clearly defined career paths. Without an understanding of their potential path forward, young people — particularly those from populations that are underrepresented in the profession — are less likely to consider a career in financial planning.

The Center commissioned The Ensemble Practice LLC to conduct research examining experiences and best practices among employers in developing career paths designed to attract and retain the next generation of financial planners. Researchers interviewed representatives of 30 firms of all sizes and business models that employ financial planners, in addition to reviewing data from other studies that captured the compensation and business practices of nearly 400 firms.

Financial Planning Career Paths: Building More Sustainable and Successful Businesses is the result of this extensive research and analysis. This comprehensive guide offers guidance on best practices for establishing career paths that facilitate recruitment, onboarding, training, career development and retention of financial planners and advisors. It provides a detailed picture of each rung on the financial planner career ladder, including the skills, experience and responsibilities necessary for success in each position. Additionally, it provides a framework for compensation and organizational advancement so that professionals can manage their expectations and be well rewarded for their efforts. Establishing and communicating clear career paths is crucial to drawing new talent into our profession. Career paths provide clarity and transparency around compensation models and advancement opportunities, enabling firms to more effectively engage with and develop talented professionals.

This guide is one of the Center's Workforce Development initiatives aimed at arming firms with tools to attract, onboard and train the next generation of financial planners. It was inspired and informed by the Center's Workforce Development Advisory Group under the leadership of Mark Tibergien, CEO of Advisor Solutions for BNY Mellon|Pershing, a nationally recognized expert in the area of workforce development in financial services. The Advisory Group is composed of experts on talent acquisition and retention, leaders from financial services firms, heads of CFP Board Registered Programs, and CFP® professionals advancing innovative workforce development initiatives. We are grateful to Mark and the members of the Workforce Development Advisory Group for their insights, expertise and guidance in the research and development of the guide.

We would like to thank the guide’s Signature Sponsor BNY Mellon|Pershing for their generous support of the guide’s development. We are also grateful to the Center’s Lead Founding Sponsor TD Ameritrade Institutional, and Founding Sponsors Northwestern Mutual, Envestnet and Charles Schwab Foundation, in partnership with Schwab Advisor Services, for their leadership and support for the work of the Center.

We hope that firms will use this guide to help them build sustainable organizations and that professionals will use it as a roadmap for navigating the steps toward the development of successful financial planning careers. The establishment of career paths, which will help to attract, develop and retain new talent, will ultimately lead to more successful businesses and help to advance financial planning as a true profession that serves the public.

Sincerely,



Kevin R. Keller, CAE
Chief Executive Officer
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Executive Director
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EXECUTIVE SUMMARY

The *Financial Planning Career Paths: Building More Sustainable and Successful Businesses* aims to help financial planning organizations become better employers and attract and retain more professionals who are pursuing financial planning careers. Employers recognize the importance of talent development and are reaching consensus on the progression of skills and responsibilities required to transform aspiring advisors into professionals who lead client relationships and financial planning teams.

Career paths are firm-specific and reflect a firm's strategy, the nature of the client relationships it serves and its organizational culture. That said, career paths are becoming better understood and more standardized across the profession. Interviews with 30 leading financial planning firms suggest that there are common steps to career development, each with a distinct set of responsibilities and skills.

The advisory career follows a five-step progression:

1 Analyst

This entry-level position allows professionals to learn about the financial planning process and begin their careers at the firm.

2 Associate Advisor

This is a technical position that focuses on drafting financial plans and developing analysis that can be presented by the lead professionals at the firm.

3 Service Advisor

This position requires a CFP® certification and focuses on communicating with clients and responding to their needs. This step of the career path is critical for the successful development of professionals, as it sets the foundation for the future development of relationship management and business development skills.

4 Lead Advisor/Managing Director

The cornerstone position of the profession, Lead Advisors/Managing Directors strategically manage client relationships, develop and implement a service methodology and guide clients through important financial planning decisions. Lead Advisors/Managing Directors also direct client service teams and help manage and develop their more junior colleagues. In addition, they are expected to attract clients to the firm and help the organization grow its reputation in the marketplace.

5 Principal/Partner

In many firms, the highest contributing Lead Advisors/Managing Directors also take on leadership roles. The expectations on Principals/Partners are high: they should be professional experts, serve a large group of premier clients and contribute to the growth of the firm. In addition, Principals/Partners manage large teams of advisors and are responsible for the development of talent and the integration of professionals into the firm's culture. Many Principals/Partners also take on executive or management roles, and all are expected to live the values of the firm and serve as models of professionalism.

The titles used above and throughout the paper are intentionally generic, as there are many types of firms that have some sort of career path. Each step in the career path is defined by requirements for expertise, experience and focus and has well-developed compensation methods. This guide thoroughly documents the skill and responsibility expectations for every position and provides general guidance on the prevalent compensation methods at every step.

The financial planning profession has absorbed many of the lessons of older service professions such as public accounting and law. Advisory firm career paths are heavily influenced by accounting firms, as many CFP® professionals are also CPAs. In fact, many advisory firms have a historical or present-day connection to accounting firms.

One of the most common mistakes an organization can make is to rush through the Service Advisor step or skip it entirely. This position is a critical step in the career path and vital to professional development, enabling professionals to learn important skills while contributing to existing client relationships and receiving guidance from experienced Lead Advisors/Managing Directors. Career paths that lack this step result in high levels of turnover and “dropping out” from the profession.

Firms are moving away from a singular focus on business development and recognizing the need to incorporate more guaranteed compensation and institutionalized business development in order to attract more young professionals. Mentoring and coaching have been added across the profession as a vital component of career development, and firms are placing greater emphasis on the organizational and coaching contributions of their professionals.

As the profession continues to grow and attract more clients and talented professionals, firms are striving to create more diversity by improving their recruiting outreach, eliminating bias from their selection processes and purposefully seeking out more diverse candidates. The Center supports firms in these efforts, and a key goal of this guide is to help employers increase the gender, ethnic, racial, age and socioeconomic diversity of the advisory profession.

Better talent development practices and more inclusive career choices will allow financial planning firms to attract a more diverse group of professionals. Increasing diversity will in turn create better organizations and a better financial planning profession, one that not only does “the right thing” but also better serves its diverse body of clients.

The future of financial planning is bright. Many talented professionals are joining advisory firms to help and serve a growing client base that is expanding in terms of both size and representation. By developing and deploying career paths, firms are becoming better employers and laying the foundation for the sustainable success of the financial planning profession.

CHAPTER 1

ROLE AND PURPOSE OF CAREER PATHS IN FINANCIAL SERVICES

The most critical factor for the success of an advisory firm is its ability to attract and retain talented people. As business management expert David Maister writes in one of his books, “Given both the scarcity and the power of good coaching, it is entirely possible that a firm’s competitive success can be built on a superior ability to get the best out of its people.”¹ In other words, a firm’s ability to train and develop professionals may very well be one of its most sustainable competitive advantages.

Career paths are present in every profession, dating all the way back to medieval guilds. Young aspiring craftsmen went through regimented training to first become apprentices and then journeymen. Journeymen could demonstrate their skills to earn admission into the guild and become master craftsmen. The system provided a way for the guild to regulate competition, but it also ensured that those who presented themselves as craftsmen actually had the skill to perform. This is how Michelangelo trained, and this is how accountants, lawyers, engineers and consultants continue to be trained.

The career path for financial advisors is becoming better understood and shared across the financial advisory profession. Most firms have spent time formulating and articulating how professionals develop from the time they enter the profession to the time they reach the highest levels of responsibility.

¹ David H. Maister, *Managing the Professional Service Firm* (New York: Free Press Paperbacks, 1997).

WHY PROFESSIONALS NEED CAREER PATHS

A career path is a vital tool in the development of people and key to long-term success. This applies not only to G2 professionals (i.e., second generation professionals who join the founders later in the development of a practice), but also to all present and future generations of employees. Without a career path, professional development becomes an arbitrary combination of experience, informal mentoring, personal relationships and exposure to opportunities. This unstructured approach will likely waste the talents of many professionals who could become valuable contributors to the firm in the presence of a more structured training.

Establishing a path for advancement and support can help professionals fulfill their potential. Many talented people may never develop because they are never taught a vital skill. Deserving professionals may never be promoted if they are not noticed by the right people. Some may quit because they become exhausted or demotivated, having no clear view of the finish line. It may prove difficult to ask professionals for patience as they gain the necessary experience to advance. A career path gives professionals reasonable expectations for their success in a firm and lets them know how they will benefit financially, intellectually and socially at every step.

A career path also helps firms recruit talent, particularly talent that is in the very early stages of development. The presence of a structured process with clear milestones encourages those who are beginning their professional journeys and serves the same purpose as mile markers in a marathon. If you think about running 26.2 miles at the start of the race, the distance can seem overwhelming. But if you focus on running the next mile, the task becomes practical and achievable. Similarly, when starting in a firm as an entry-level professional, the goal of reaching the top of the profession (i.e., the finish line) may seem daunting or too distant. A career path encourages young professionals to think of the practical next step rather than the faraway destination.

A career path benefits firms by helping them achieve three very important objectives:

1 Creates reasonable expectations

Employees always want to know what will happen next. They will likely ask questions such as: Why should I invest my efforts and talents in your firm? Will I be successful if I do? How do I know I can trust you to lead me to success? Even when such questions are not explicitly asked, they always linger beneath the surface. A career path is not a guarantee for success, but it does help employees feel less anxious about the future.

2 Promotes the idea of progress

Progress helps motivate. Without visible progress, it may be difficult to continue putting forth effort. A career path enables employees to develop goals that can be structured around the needs of the firm and its values. The achievement of goals can be rewarded with advancement, which can bring desired financial rewards and prestige.

3 Brings a sense of fairness to the firm

In an environment where highly ambitious people are brought together in the pursuit of professional success, many times it will be necessary to explain why one person is advancing while another is not. Without a career path, changes in compensation and other perks become very difficult to explain. In the absence of a system, the firm can be suspected of being run by the “likes me, likes me not” rule.

Financial advisors utilize many skills when working with clients, from technical skills in finance, taxes and investments to strong communications and relationships skills to project management and team management skills. Many of these skills can only be learned and improved upon through experience. The training of a “complete” financial advisor is a process that takes years and requires the patience of both the professional and the organization.

MANAGING EXPECTATIONS

Managing the expectations of both professionals and organizations is one of the most important roles of a career path. Young professionals are vulnerable to becoming discouraged by a vague process of career advancement or growing impatient with their own development. Organizations can set unreasonable expectations on professionals who are not yet ready. Alternatively, organizations may overprotect professionals and develop them too slowly, disappointing their ambitions. Career paths help manage expectations on both sides.

There are three key questions on the minds of young financial planning professionals:

- Will I be successful in this career?
- Will I be successful in this firm?
- Will this firm provide me with a platform to achieve my personal goals?

Especially in the early stages of a career, such questions can cause anxiety and sabotage the relationship between the professional and the firm. Young people today see daily examples of tremendous success at a very young age. Mark Zuckerberg started Facebook at the age of 19. Sergey Brin was 24 when he co-founded Google. Even in the more “traditional” business of financial services, there are many professionals under 30 who are managing hedge funds or starting “disruptive fintech” businesses. When comparing themselves to these examples, many young professionals fear that they are choosing the wrong career or falling behind.

What is more, many firms are still relatively young, having grown very rapidly. Professionals who joined in the early days may have experienced very rapid careers, reaching high levels of responsibility quickly. Those who follow behind, in contrast, may feel that they are not moving fast enough. In their minds, their predecessors traveled the career path in five years while they are made to wait 10 years.

It is well known in behavioral finance that we tend to misjudge risk-return relationships and have a “success bias.” We absorb success stories while failing to see all the other cases where things went wrong. Young professionals are not immune to success bias. They tend to focus on cases of successful entrepreneurs and early-stage contributors, ignoring the reality that many small and young firms never reached any level of success. Indeed, many professionals had to restart their careers somewhere else.

Career paths, by their nature, tend to emphasize systematic, predictable outcomes rather than overnight success. A career path promises a reliable process rather than the fastest way to achieve success. In this way, career paths help manage expectations, but they also require patience.

Firms can also be vulnerable to a lack of patience. It is very tempting to throw young people into ambitious endeavors in the hope that they will succeed. What firm does not wish for its recent hires to bring in new clients, ideally clients who are also young and already wealthy? Such hopes, however, are unrealistic and can damage the ability of professionals to develop.

If a skill is required out of sequence, the result may be discouraging to both the firm and the professional. For example, many professionals have tried to develop new business very early in their careers and are disappointed by their results. They then either quit the profession or decide to pivot their careers away from business development. Career paths can help firms be patient and thoughtful about when to teach a skill and when to expect a skill to be productive.

Well-structured and well-deployed career paths contribute significantly to the growth and success of advisory organizations. A good example of success is Plante Moran Wealth Management, one of the largest independent wealth management organizations and a division of one of the largest accounting firms in the country. There are many other examples of organizations that are finding success through career paths, and these case studies will be highlighted throughout this guide as various aspects of the career path are discussed.

Plante Moran Guides Professionals through Five Career Stages

Plante Moran is the eleventh largest accounting firm in the country and one of the top 50 largest independent registered investment advisory firms (RIAs). The firm is also recognized by *Fortune* magazine as one of the “100 Best Companies to Work For.”

Plante Moran uses a five-step career path that culminates in the opportunity to become a Partner (i.e., owner) in the firm. The career progression is well documented and used in coaching and mentoring sessions with professionals at every level. Skill and experience development is broken down into the following categories:

- Client relationship management
- Communication skills
- Leadership and management
- Staff development (the development of others)
- Technical skills
- Problem-solving
- Network/practice development (business development)

One of the first expectations laid out in the career path documents is that the professional “takes ownership and responsibility for her or his personal professional development.” This expectation strongly signals that the progression through a career path is the responsibility of the professional, whom the firm surrounds with the necessary knowledge and resources.

SHOULD EVERYONE TRAVEL THE FULL LENGTH OF THE CAREER PATH?

Career paths are meant to both encourage and manage progress. In an ideal world, most firms would like to see as many of their professionals as possible travel the full length of the career path and reach the highest level of achievement. That said, financial advisory organizations also recognize that many professionals may choose not to travel the full length of the career path. Others may choose to pause at a certain step before proceeding at a later time.

While no financial advisory organization uses an “up or out” style of professional development, career paths associated with management consulting or investment banking firms focus on professionals who are making progress because training and development resources are very valuable. Examples of such resources include training programs and internal “universities,” subsidies to attend external training, the time of mentors and coaches and any compensation stipends offered to support the development period.

While the firms interviewed for this guide clearly focus their resources on top performers, they also look to create reasonable alternatives for those who are either struggling to advance or who choose not to advance. Financial advisory organizations do not want to lose the contributions of strong performers who may not be able to make the next step but who are highly valued in their current roles.

At the same time, in order to grow, firms need to develop advisors at the top levels of the profession. In particular, firms that expect advisors to develop new business and act as leaders to the rest of the firm badly need to see more “growth engines” and more leaders emerge. If too many of the advisors being recruited interrupt their careers midway, whether voluntarily or not, then the organization will have a very hard time meeting its goals.

As a result, career paths and compensation decisions are usually focused on those professionals who are moving and progressing. By necessity and strategy, the top opportunities, coaching, training and development resources are steered toward professionals who have the ambition to travel the entire length of the career path.

Professionals need guidance and attention to flourish as they travel along the career path. This holds especially true for professionals whose backgrounds may differ significantly from those of the firm’s clients and senior professionals. Ensuring that everyone receives encouragement is important if a firm hopes to retain and motivate the best talent.

Urban Wealth Management Pays It Forward through Mentorship

René Nourse is the founder of Urban Wealth Management, an independent RIA in the Los Angeles area. René joined the financial advisory profession in the 1980s — a time when the profession was not particularly welcoming to women, much less black women. René says that without the support of two other black women who started around the same time, as well as the guidance of mentors who helped her stay grounded and continue to push forward, she likely would have left the profession.

In René's experience, mentorship can come from many places, whether that be a mentor you seek out, a manager assigned to you or even a peer group that serves as a support system. As a way of paying it forward, she has taken it upon herself to mentor several professionals who are either entering the profession or making career changes. Her mentees found her through a variety of means: some reached out via LinkedIn, some shared a mutual network contact and some connected through an organization such as the CFP Board or The Association of African American Financial Advisors (AAAA). As a mentor, René has discovered that her mentees need the most help with building confidence in themselves and their abilities, having patience and trusting that growth and development will come with time.

COMMUNICATING CAREER PATHS

The process of educating professionals about the career path in a firm should begin before a professional even joins that firm. Communication should be part of the recruiting process. Having a well-developed career path can be a significant recruiting advantage and can improve recruiting outcomes. It can also create an important self-selection process whereby professionals decide for themselves whether they are a good fit for the career path of the firm before they accept an employment offer.

A career path should not be a well-kept secret. On the contrary, it should be part of the firm's brand as an employer. Many professional services organizations publish their career paths and willingly discuss them with prospective employees. From Deloitte in public accounting to Accenture in business consulting to DLA Piper in law, firms are widely publicizing their career paths and even including them in job posting materials when recruiting for a position.² Financial advisory firms are also taking advantage of their ability to offer a career path to enhance their recruiting, particularly among professionals with less experience.

Merely publishing the career path is not enough to help professionals understand what is expected of them and how they can make progress. For the career path to be an effective tool for talent development, it has to become a permanent part of the coaching and mentoring conversations inside the firm. In many firms, the manager or coach and the mentor are two different people. The manager is an organizational assignment determined by the firm. Managers are responsible for assigning responsibilities, creating accountability and delivering feedback to professionals. The mentor, on the other hand, is a friendly resource who offers guidance and support. Mentors are often selected by the professionals rather than assigned by the firm.

² The Deloitte website offers an example: <https://www2.deloitte.com/us/en/pages/careers/articles/join-deloitte-business-technology-analyst.html>.

Some organizations also plan career fairs or weeks where professionals can receive additional information about career paths and training resources and get exposed to different groups or divisions within the firm. For example, the Charles Schwab organization holds career weeks for its professionals to connect with different groups within the firm and learn about career opportunities and career paths within those groups.

Both managers and mentors should use the career path extensively in their development conversations. These development conversations should focus on the following goals:

- Creating clarity about where the professional is in the career path
- Providing feedback on what skills should be developed and how
- Encouraging the professional to continue making progress
- Removing obstacles and frustrations when possible
- Building the right habits for the long-term success of the professional

Organizations frequently struggle to provide professionals with clarity and consistency when communicating career paths:

Vanguard Supports Career Development through Mentorship

Vanguard is not only the largest provider of mutual funds in the world but also home to over 1100 CFP® certification holders, 700 of whom work in the Personal Advisor Services segment of the organization. Vanguard places a lot of importance on mentorship in the development of its professionals.

Mentorship at Vanguard is a robust program designed to promote a career in advice. The program pairs mentees with experienced advisors to go through a series of meetings, on-the-job observations and targeted conversations to deepen the mentees understanding of a career in advice centered around skill development, client relationships and organizational culture. The program is highly competitive, with each cadre involving as many as 50 participants. Last year, three cadres completed the mentoring curriculum.

The mentorship program is also a significant part of the effort of Vanguard to add more women advisors. Vanguard is working closely with the CFP Board on a pilot to relaunch the careers of women who are coming back into the workforce. The firm makes sure that the women it recruits are paired with mentors to whom they can relate and who can help them find success as financial advisors.

1 Role confusion

Many organizations use different titles on business cards and client communications than the roles described on the career path. As a result, professionals may understand the career path but have trouble knowing where they are on it, since their professional title does not map to the roles on the career path.

2 Inconsistent promotions

Many firms also create confusion by inconsistently applying the career path they have to the promotion decisions they make. For example, the career path may describe the “ability to manage client relationships as a Lead Advisor” as necessary for a promotion while promoting a number of individuals who clearly do not have that responsibility or skill. This sets a precedent that is confusing and potentially frustrating.

3 Unrealistic assessments

In their desire to create friendlier relationships with the professionals they manage or mentor, career coaches can provide an unrealistic picture of the performance of a professional. They may hear feedback that indicates that they are ready for the next position while in reality their skills may not yet be fully developed.

4 Tenure-driven promotions

Many firms find it difficult to not advance a professional after he or she has accumulated significant tenure in a position. As a result, firms may promote professionals who are not yet ready for the next step and whose advancement creates a confusing precedent.

As a best practice, the career path and the professional’s position in the career path should be part of all annual performance review conversations. Such career-oriented conversation helps build clarity and provides context for the feedback.

Ideally, the metrics documented in the career path as part of the progression of expectations are readily available to professionals. This helps create clarity and drive a sense of progress. For example, if the firm includes revenue responsibility as part of the expectations for Lead Advisors/Managing Directors, it will ideally publish a report that allows advisors to see their own revenue responsibility. The same can be true for non-numeric goals such as participation in initiatives and projects or the completion of assignments and education.

Finally, a well-communicated career path should create a mechanism for communicating the professional’s progress to the firm. It is potentially problematic to leave career conversations between just the professionals and their coaches. The firm itself should have a transparent mechanism for understanding where its professionals are on the career path. There should also be a mechanism for professionals to communicate their achievements to the firm, thus avoiding a sense of isolation or an overreliance on one person to manage their careers.

Aspiriant Provides a Detailed Career Path Document

Aspiriant is a large national wealth management firm with over 150 professionals. The firm emphasizes the development of talent and seeks to provide clarity to all professionals on the skills they need to develop to progress and the responsibilities inherent to each step.

To improve the communication of career paths, Aspiriant has developed a career path document that details each of the four positions within the firm. This document is available to all professionals and outlines each and every step in terms of the required technical skills, relationship abilities, business development and contributions to the firm. It is also used extensively in coaching and mentoring professionals. The transparency allows all professionals to have a clear sense of their progress and manage their expectations.



AN OVERVIEW OF FUNCTIONAL GROUPS IN FINANCIAL ADVISORY FIRMS

Financial advisory firms take on many strategies and serve a variety of clients, resulting in many different organizational structures. Each major function within a firm typically creates opportunities for specialized teams and, consequently, specialized careers and career paths.

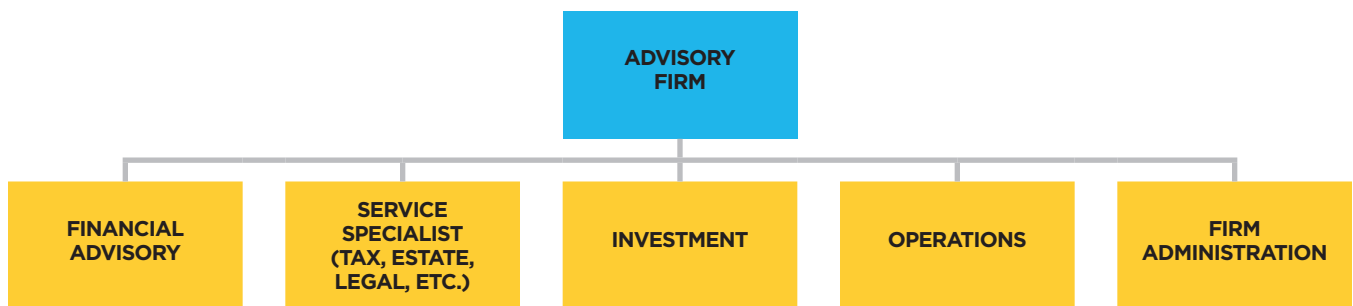


FIGURE 1.1: Functional groups found in financial advisory firms

The Financial Advisory Functional Group can also be called the Wealth Management or Planning Functional Group. The primary role of Financial Advisory team members is to manage client relationships and deliver wealth and financial advice. This group is the focus of this guide.

The Service Specialist Functional Group includes positions that provide specialized knowledge to the Financial Advisory Functional Group. Such dedicated specialists may include tax experts, attorneys on staff or even planners who specialize in complex cases. Most firms hire fully developed experts from the outside for this team, and the activities of the firm may be too limited to create opportunities for career development. That said, many exceptions exist.

The Investment Functional Group manages all portfolios on behalf of the firm and, depending on the firm, may also provide investment management directly to retail and institutional clients. The Investment Group typically has its own career path, as its size and prominence in the firm can be significant.

The Operations and Firm Administration Functional Groups can be joined in one department or exist as separate departments. These two functions often comprise a significant portion of the total staff of the firm, and they typically have their own career paths.

While they are not the focus of this guide, the Investment Group and Operations Group career paths deserve further discussion. The rest of this chapter will briefly cover each in turn. The following chapter will discuss the financial advisor career path in great detail.

INVESTMENT FUNCTIONAL GROUP CAREER PATH

Investment management firms have a well-developed career path for the professionals who comprise their Investment Functional Group:

1 Analyst

The Analyst performs research and analysis and/or manages investment options. Professionals in this role provide information and make recommendations on managers, advisory service products, investment selections, suitability guidelines and reporting decisions. The Analyst is less experienced and subordinate to the Senior Analyst.

2 Senior Analyst

The Senior Analyst performs research and analysis and/or manages investment options. Professionals in this role provide information and make recommendations on managers, advisory service products, investment selections, suitability guidelines and reporting decisions. The Senior Analyst has more experience and performs at a higher level than the Analyst.

3 Portfolio Manager

The Portfolio Manager is responsible for the management of client assets and portfolios as directed by the firm's Investment Committee and the investment policy statements designed in collaboration with clients. The position also contributes to research and analysis of investment opportunities as requested by the CIO.

4 Senior Portfolio Manager

The "senior" label usually implies more experience and expertise. The Senior Portfolio Manager does not generally have people management responsibilities, though the position may be responsible for the training and performance of more junior managers in some firms. Senior Portfolio Managers may also manage more complex portfolios.

Typically, members of the Investment Group have earned the Certified Financial Analyst (CFA) designation. Fifty-six percent of Senior Portfolio Managers are CFAs according to the *2017 InvestmentNews Adviser Compensation & Staffing Study*. Many members of the Investment Group are also CERTIFIED FINANCIAL PLANNER™ professionals. (Twenty-one percent of Senior Portfolio Managers surveyed by *InvestmentNews* are CFP® professionals.)

OPERATIONS FUNCTIONAL GROUP CAREER PATH

The Operations Group is often one of the largest teams found at advisory firms, second only to the Financial Advisory Group. Operations and administrative functions form an integral part of the strategy and success of the firm. For this reason, most firms dedicate the time and attention necessary to ensure that the Operations Group can attract and grow talent. The framework for the career path on the Operations Group usually consists of the following four levels:

1 Operations or Admin Specialist (entry-level)

Professionals in this position support advisory teams or serve as members of client service teams. This position is entry-level for new hires in operations or administration. Specific responsibilities can include client service administration, administrative support, executive support, performance reporting and new accounts.

2 Senior Specialist

The Senior Specialist is the higher level of the Operations or Admin Specialist positions (e.g., Senior Client Service Administrator). The “senior” label indicates greater experience and the added responsibility of training other staff.

3 Team Leader or Director

The Team Leader or Director leads a team of Operations and Admin Specialists. Common professional titles include Office Manager, Trading Manager, Director of Client Service Administration and Human Resources Manager, among others. The emphasis at this stage shifts from performing individual responsibilities to managing people.

4 Department Leader

This is the highest level of responsibility, with oversight of multiple teams and a significant portion of the operations or administrative functions of the firm. Professional titles include Chief Administrative Officer, Chief Technology Officer, and, most frequently, Chief Operations Officer. Department Leaders are frequently considered for ownership.

The key to tackling the Operations Functional Group career path is to look not only at the progression of skills and experience, but also at the progression of responsibilities. In most firms, the first step up (Senior Specialist) is based on expertise while the next step up (Team Leader or Director) is based on the ability of the professional to manage and lead other team members. Finally, the ability to contribute at the highest level in the firm defines the top of the Operations Group career path (Department Leader).

CHAPTER 2



CHAPTER 2

CLIMBING THE FIVE RUNGS OF THE FINANCIAL PLANNING CAREER LADDER

This chapter focuses on the career path for professionals who have completed or intend to complete the requirements for the CERTIFIED FINANCIAL PLANNER™ certification (CFP® certification). The CFP® certification enhances many careers and career paths and is held by professionals in various positions in financial services firms. That said, the research reflected in this guide specifically targets professionals who provide financial planning and advice to clients.

The industry has many names for this type of professional: financial advisor, financial planner, wealth advisor, investment advisor and wealth counselor, to name a few. This paper will refer to these professionals using the most general term: financial advisors. However, it is important to note that these terms are interchangeable, and the financial advisor career path discussed in the following pages applies equally well to all of them.

While individual firms each formulate a distinct financial advisor career path to fit the unique strategy and culture of the firm, research shows that there are defined stages in the financial advisor career path that most firms share. These stages — or rungs in the career ladder — can serve as a blueprint for creating and implementing a financial advisor career path at any financial advisory firm in the profession.

POSITIONS ON THE FINANCIAL PLANNING CAREER PATH

Let us begin with a broad overview of the five rungs of the financial planning career ladder: Analyst, Associate Advisor, Service Advisor, Lead Advisor/Managing Director and Principal/Partner. The tables on the following pages will break down the typical characteristics of each position across a number of key areas:

- Client, team, firm and growth responsibilities
- Degrees and designations
- Typical experience
- Performance measures
- Skills required and skills being developed
- Compensation range

TABLE 2.1: Analyst, the first rung of the financial planning career ladder

RUNG I: ANALYST	
Titles	Analyst, Consultant, Support Advisor, Senior Analyst
Client Responsibilities	Gather and maintain client data Enter client information into various systems, including financial planning and CRM Assist the Operations and Investment Groups with client onboarding Answer routine client questions and service requests
Team Responsibilities	Be a great teammate
Firm Responsibilities	Understand and support the firm’s vision, mission and strategy Engage in teamwork and teambuilding and integrate into the culture of the firm
Growth Responsibilities	Support Lead Advisors/Managing Directors and Principals/Partners by creating presentations and materials for business development meetings
Degrees and Designations	Bachelor’s degree
Typical Experience	Zero to three years
Performance Measures	Mastery of technical skills Expertise in software packages Completion of education and achievement of degrees and designations
Skills Required	Core knowledge of financial industry, financial products and financial planning concepts Knowledge of the firm’s financial planning and other core systems Ability to perform basic financial analysis
Skills Being Developed	Knowledge of planning areas including financial planning, investments, budgeting, taxes, risk management and estate planning Knowledge of technology solutions used by the firm
Compensation Range	Total compensation ranges between \$47,000 and \$62,000 with a median of \$55,000 Salaries and incentives are the primary compensation method

TABLE 2.2: Associate Advisor, the second rung of the financial planning career ladder

RUNG II: ASSOCIATE ADVISOR	
Titles	Associate Advisor, Paraplanner, Senior Associate, Associate, Consultant and Associate Financial Planner
Client Responsibilities	<ul style="list-style-type: none"> Draft financial plans Perform asset allocation analysis necessary for client onboarding and portfolio reviews Create custom analyses of financial decisions Prepare presentations and other materials necessary for client meetings Perform research of investments that clients currently hold or may hold Answer routine client questions and service requests
Team Responsibilities	Train Analysts on the process, tools and methodology used by the team
Firm Responsibilities	<ul style="list-style-type: none"> Understand and support the firm's vision, mission and strategy Engage in teamwork and teambuilding and integrate into the culture of the firm
Growth Responsibilities	<ul style="list-style-type: none"> Support Lead Advisors/Managing Directors and Principals/Partners by creating presentations and materials for business development meetings Attend business development meetings with Principals/Partners or Lead Advisors/Managing Directors and take responsibility for follow-up tasks
Degrees and Designations	Bachelor's degree
Typical Experience	Two to five years
Performance Measures	<ul style="list-style-type: none"> Development and mastery of technical skills Completion of education and achievement of degrees and designations
Skills Required	<ul style="list-style-type: none"> Mastery of the financial planning process Expert user of all of the technology utilized by the firm Knowledge of the firm's planning and service process
Skills Being Developed	<ul style="list-style-type: none"> Knowledge of planning areas including financial planning, investments, budgeting, taxes, risk management and estate planning Communicating with clients in an effective manner
Compensation Range	<ul style="list-style-type: none"> Total compensation ranges between \$59,000 and \$75,000 with a median of \$68,000 Salaries and incentives are the primary compensation method

TABLE 2.3: Service Advisor, the third rung of the financial planning career ladder

RUNG III: SERVICE ADVISOR	
Titles	Service Advisor, Associate Wealth Manager, Associate Investment Advisor, Investment Advisor, Advisor, Financial Advisor, Financial Planner, Planner and Director
Client Responsibilities	<ul style="list-style-type: none"> Draft and deliver financial plans for review Implement financial plans under the supervision of Lead Advisor/Managing Director Work with Investment Group on financial plan implementation Participate in client meetings, deliver presentations and answer questions Take the lead on answering routine client questions and take clients through routine reviews
Team Responsibilities	<ul style="list-style-type: none"> Assign projects to Analysts and Associate Advisors and supervise quality and timeliness Coach and deliver feedback to Analysts and Associate Advisors Train Analysts and Associate Advisors on process and methodology
Firm Responsibilities	<ul style="list-style-type: none"> Understand and support the firm's vision, mission and strategy Participate in the completion of strategic initiatives and projects
Growth Responsibilities	<ul style="list-style-type: none"> Support Lead Advisors/Managing Directors and Principals/Partners in their marketing and business development efforts Attend and contribute to business development meetings Learn about the firm's target markets and choose a target market or specialty Contribute to the marketing efforts of the firm Improve the referral stream through exceptional client service
Degrees and Designations	Bachelor's degree, CFP® certification
Typical Experience	Three to seven years
Performance Measures	<ul style="list-style-type: none"> Number of clients serviced as "second chair" Number of clients serviced and revenue as "first chair" Completion of goals set by the firm
Skills Required	<ul style="list-style-type: none"> Expertise in client service Mastery of the firm's service and compliance process Project management of client assignments Communication with clients and internally within the team
Skills Being Developed	<ul style="list-style-type: none"> Leading client relationships and communicating with clients in an effective manner Becoming a recognized professional expert Managing a team and coaching and developing others
Compensation Range	<ul style="list-style-type: none"> Total compensation ranges between \$75,000 and \$122,000 with a median of \$97,000 Salaries and incentives are the primary compensation method Some organizations compensate the position with a percent of the revenue generated by the team or the Lead Advisor/Managing Director practice supported

TABLE 2.4: Lead Advisor/Managing Director, the fourth rung of the financial planning career ladder

RUNG IV: LEAD ADVISOR/MANAGING DIRECTOR	
Titles	Lead Advisor, Managing Director, Senior Advisor
Client Responsibilities	<ul style="list-style-type: none"> Manage client relationships, identifying and meeting client needs Develop and present financial plans to clients Oversee the implementation of financial plans
Team Responsibilities	<ul style="list-style-type: none"> Lead a team and manage the responsibilities and performance within the team Actively work to recruit the professionals needed for the team Resolve conflicting priorities and allocate resources within the team Coach and develop team members
Firm Responsibilities	<ul style="list-style-type: none"> Engage with the firm’s strategic planning process and contribute to key initiatives Participate in firm committees Contribute in every way to making the firm better
Growth Responsibilities	<ul style="list-style-type: none"> Attract new clients to the firm Elicit referrals from existing clients through exceptional client service Work with the firm to develop a personal marketing plan Participate in strategies to develop a niche or specialty market Build a network of business contacts in the target market
Degrees and Designations	Bachelor’s degree, CFP® certification
Typical Experience	Five to 10 years
Performance Measures	<ul style="list-style-type: none"> Revenue responsibility and new revenue developed Client retention and satisfaction Execution of marketing plan and other strategic projects Development of the careers of those supervised and mentored
Skills Required	<ul style="list-style-type: none"> Managing client relationships Managing a team Providing feedback and improving the performance of other professionals Developing new business through referrals and marketing
Skills Being Developed	<ul style="list-style-type: none"> Business development Mentoring, coaching and developing others Contributing to the strategic initiatives of the firm
Compensation Range	<p>Total compensation ranges between \$125,000 and \$262,000 with a median of \$163,000</p> <p>The position is typically paid a percentage of the revenue for which the professional is responsible, or paid with salary and incentives</p>

TABLE 2.5: Principal/Partner, the fifth rung of the financial planning career ladder

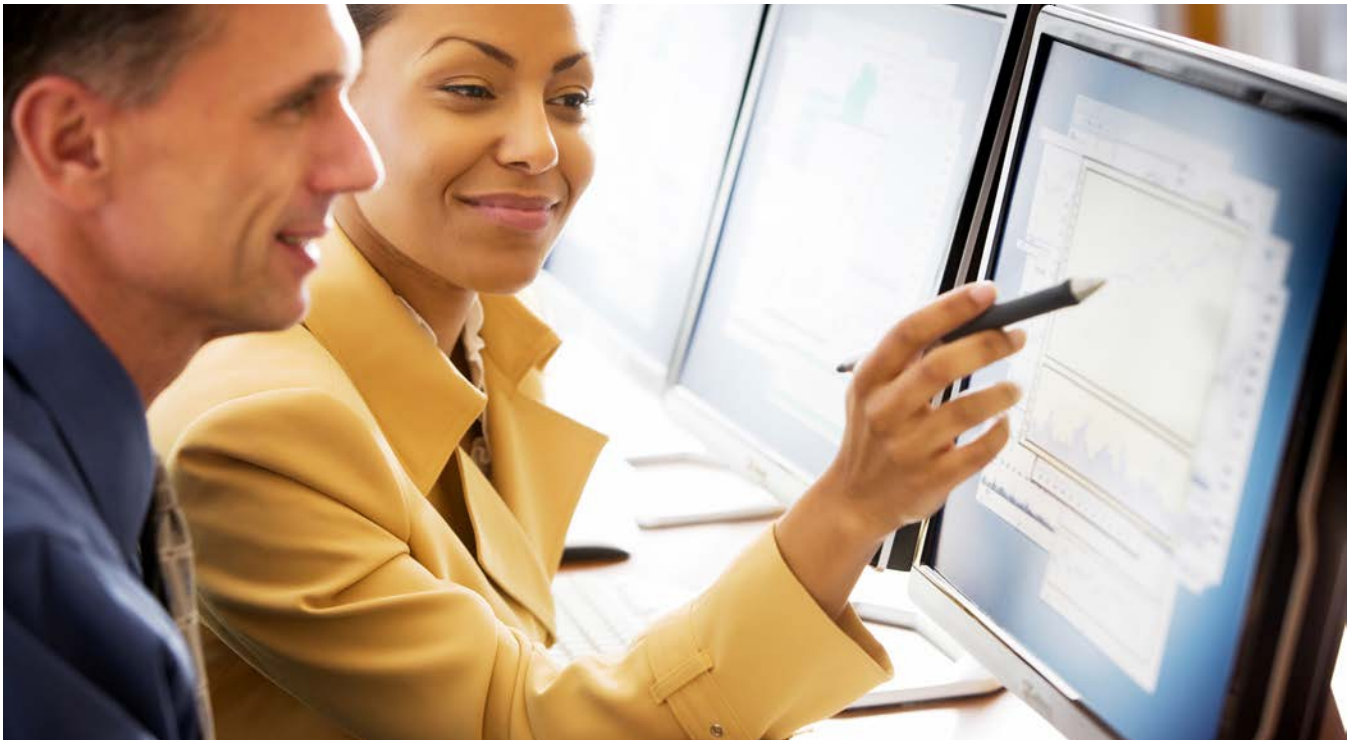
RUNG V: PRINCIPAL/PARTNER	
Titles	Principal, Partner
Client Responsibilities	<p>Manage premier client relationships (i.e., the most complex and largest in size) as Lead Advisor/Managing Director</p> <p>Consult with Lead Advisors/Managing Directors on complex cases</p>
Team Responsibilities	<p>Manage a team or potentially multiple teams</p> <p>Coach Lead Advisors/Managing Directors and Service Advisors on team management skills</p> <p>Manage capacity in a team, group or department and initiate recruiting</p>
Firm Responsibilities	<p>Lead by example and live the values of the firm</p> <p>Engage with the firm’s strategic planning process and contribute to key initiatives</p> <p>Work to communicate and clarify the firm’s vision, strategy and values to the team</p> <p>Participate in firm committees</p> <p>Contribute in every way to making the firm better</p>
Growth Responsibilities	<p>Attract new clients to the firm</p> <p>Have robust business network, including sources of referrals and influencers in the target market</p> <p>Lead the execution of a marketing plan coordinated with the firm</p> <p>Lead the strategy for growth in a niche or specialty market</p> <p>Mentor and train others on how to contribute to the growth of the firm</p>
Degrees and Designations	Bachelor’s degree, CFP® certification, recognized as an expert
Typical Experience	Seven years or more
Performance Measures	<p>Client retention and satisfaction and number of “A” clients</p> <p>New revenue developed</p> <p>Execution of marketing plan and other strategic projects</p> <p>Development of the careers of those supervised and mentored</p>
Skills Required	<p>Recognized top-level professional expertise and niche market or specialty service expertise</p> <p>Mastery of client relationships and an established business development track record</p> <p>Ability to manage a team and mentor professionals</p> <p>Sound business judgment on matters of policy and procedure</p>
Skills Being Developed	<p>Leadership abilities</p> <p>Improving mentorship, coaching and business development skills</p>
Compensation Range	<p>Total compensation ranges between \$185,000 and \$316,000 with a median of \$247,000</p> <p>The position is typically paid a percentage of the revenue for which the professional is responsible, or paid with salary and incentives</p>

PROMOTIONS ON THE FINANCIAL PLANNING CAREER LADDER

The table below outlines the skills, achievements and characteristics that firm leadership consider when weighing a candidate’s eligibility for a promotion on the financial planning career ladder.

TABLE 2.6: Promotion considerations on the financial planning career ladder

PROMOTION CONSIDERATIONS	
RUNG I TO RUNG II	
Analyst to Associate Advisor	<ul style="list-style-type: none"> Has achieved all required licenses and designations Has demonstrated mastery of the firm’s planning and investment process, including software, products, approach and presentation style
RUNG II TO RUNG III	
Associate Advisor to Service Advisor	<ul style="list-style-type: none"> Fully understands the firm’s philosophy, investment theory and financial planning theory Able to communicate with clients to obtain necessary information Understands how to work as part of the team and effectively communicates with the Lead Advisor/Managing Director and administrative staff
RUNG III TO RUNG IV	
Service Advisor to Lead Advisor/Managing Director	<ul style="list-style-type: none"> Has demonstrated the ability to earn the trust of clients Knowledgeable and seen as an expert Has clients who are willing to work with her or him independently Understands client expectations and has created a process to meet them Works well with the support team and is able to train Associate Advisors and Service Advisors
RUNG IV TO RUNG V	
Lead Advisor/Managing Director to Principal/Partner	<ul style="list-style-type: none"> Able to manage client relationships Has a productive practice of the size expected by the firm Able to develop new business on behalf of the firm Trusted and respected by clients and the professional network of the firm Acts as a leader and leads by example Makes good business decisions



I II III IV V TECHNICAL STAGE **ANALYST**

The *Analyst* is the entry-level role on the professional career path within financial advisory firms. Firms use a variety of names to describe their Analyst position including Consultant, Support Advisor and Senior Analyst. Some firms combine the Analyst and Associate Advisor roles. (The Associate Advisor position will be covered in the next section.) When these roles are combined, the first promotion on the career ladder is to Service Advisor (rung III).

Analysts can be fresh out of university, and many firms have internship programs that assign interns similar responsibilities as those described in this section. Some firms use the term “sponge” to describe their Analysts, as they are expected to absorb as much information as they can about financial planning and firm-specific processes in their first few years at the firm.

Analysts are expected to learn how to create financial plans, at first with heavy supervision and guidance. They also help the Operations Group with tasks such as client onboarding and data entry. While Analysts have limited interactions with clients, in some firms they are told to treat their more experienced colleagues as clients and strive to exceed their expectations.

JOB RESPONSIBILITIES

Analysts do not have business development responsibilities, although some firms encourage them to get a head start on formulating a plan to create a meaningful network. They also typically do not have many firm responsibilities. However, this varies from firm to firm, with smaller firms more likely to engage Analysts in internal projects or strategic initiatives. Many Analysts also have some administrative responsibilities. The points below cover the general support, analytical support and client service responsibilities typical to the Analyst position.

General Support

- Supports senior team members by creating financial plans and helping prepare materials needed for client meetings and follow-ups
- Develops expertise in financial planning and familiarity with developing financial plans for clients

Analytical Support

- Attends client meetings and takes extensive notes
- Analyzes client information and prepares reports and presentations
- Enters information into financial planning software and prepares draft plans, with help from an Associate Advisor or Service Advisor
- Researches products and product pricing and contacts carriers for information
- Researches investment managers and investment services and their pricing

Client Service

- Answers basic questions for clients or fields client calls to appropriate colleagues
- Assists with client requests for transfers of funds in and out of accounts
- Enters or updates cost basis information
- Fills out necessary forms for opening or maintaining accounts (if not performed by an Operations Specialist)
- Interfaces with the broker-dealer or custodian to obtain information or account data and conveys service requests
- Maintains information in the CRM system
- Sets up and retrieves reports in the portfolio management system (e.g., Advent, PortfolioCenter, Albridge)
- Assists in generating performance reports

A DAY IN THE LIFE OF AN ANALYST

Analysts very rarely actively participate in client meetings. Depending on the firm, Analysts may spend one to two hours in client meetings if they are brought in for educational purposes and/or notetaking. The majority of an Analyst's time, however, is spent working with Associate Advisors or Service Advisors on creating financial plans.

Financial planning responsibilities typically include obtaining the necessary client data from the Operations Group or from clients themselves (though in many firms, Analysts do not directly reach out to clients). Analysts then input the client data into the firm's financial planning software and any other information given to them by the Lead Advisor/Managing Director or Service Advisor. They will often review the final product as well.

Analysts may also spend time in internal meetings with Service Advisors or Lead Advisors/Managing Directors obtaining feedback and input on financial plans they have prepared, as well as providing updates on the projects they are currently working on. Most Analysts will also set aside time to stay up-to-date on current financial events that may be impacting clients.

Analysts may also get one-off requests from more experienced colleagues to help research things that come out of client meetings (e.g., products, product pricing, or investment services). They are typically expected to answer these inquiries on the same day, if possible.

Although some Analysts enter the profession already with a CFP® or other professional designation, many work toward a designation in their spare time. Some ambitious Analysts also set aside time for networking and professional associations such as the Financial Planning Association (FPA). Analysts do not usually have very many conferences or networking events to attend at this level in their careers, although some may be getting a jumpstart on developing a meaningful network.

Carson Wealth Offers Career Path Mobility to Retain Talented Professionals

Carson Group, a leading provider of advisor solutions and wealth management services for investors, is engaging proactively with the need for next generation Wealth Advisors. Carson is trying to get out ahead of the future by recruiting the next generation of talent while they are still finishing school. They've teamed up with the Barron's in Education program to fund an exclusive license that will provide complimentary access to Barron's content for students, faculty and staff of leading local universities. In funding this subscription, Carson Group aims to spur educational growth, promote the industry's best thinking and foster career development among aspiring financial services professionals.

The firm recruits college students who are pursuing a CFP or CFA into a rotational internship program. This six-month experience gives students the opportunity to add meaningful value to the organization and includes four 6-week rotations in the firm's investment management, business development, wealth management and marketing divisions. With exposure to this variety, interns can choose where their talents are best utilized, and, hopefully, come on board with the firm.

The rotational internship program allows candidates exposure to many sides of the profession, as well as allowing them to contribute meaningfully to the firm's vision. These are the building blocks - creative engagement, hands-on coaching - of the next generation of talent in finance.

"Millennials and Gen Z have oftentimes been misunderstood and discounted, especially in our profession," observed Aaron Schaben, executive vice president of Carson Group. "Equipped with the right knowledge, and given the right roadmap for growth, they will have an unmistakable impact on financial services. It's why we must continue to collaborate with industry leaders and educational institutions to introduce bright, young talent to our profession."

TEAM INTERACTIONS

Analysts may work regularly with the same set of senior colleagues or, alternatively, with several teams throughout the firm. They normally report to a Lead Advisor/Managing Director or Service Advisor and can receive mentorship from Associate Advisors as well. Depending on the size of the firm, many Analysts seek to collaborate and share best practices with their peers in order to stay knowledgeable and continue learning as much as possible.

As already mentioned, many Analysts strive to treat their Service Advisors and Lead Advisors/Managing Directors as their "clients" and consistently exceed their expectations. A good Analyst will provide progress updates and solicit informal and formal feedback as frequently as possible.

TRAINING

The Analyst position requires no previous experience, although some career changers bring several years of experience to the role. Many firms prefer Analysts to have a bachelor's degree related to finance or economics, although some are more flexible on educational background as long as candidates have obtained a four-year degree.

At this stage in their careers, Analysts may have completed the coursework and examination requirements for the CFP® certification, though they are not yet able to use the designation because of experience requirements. Analysts coming from universities without financial planning programs often have not yet worked toward a designation. In these cases, firms seek to hire candidates who express interest in obtaining such a designation.

SKILLS REQUIRED AND SKILLS DEVELOPED

Analysts are expected to have expertise in the following skill areas:

- General financial planning and basic financial analysis
- Teamwork and time management

Analysts typically work to develop their skills in the following areas:

- Specialties and niches within financial planning such as investments, budgeting, taxes, risk management or estate planning
- Technology solutions, especially the firm's financial planning software
- Firm-specific planning and service processes

Schwab Private Client Fosters Mentorship Opportunities

Schwab Private Client provides advisors with development opportunities through a combination of formal and informal training and mentoring programs. Entry-level employees (known as Associate Private Client Advisors) enroll in APCA University, a 12-week training program. Each program participant is assigned a Private Client Advisor (i.e., Lead Advisor) as a mentor. Mentors guide participants throughout training, and Schwab encourages mentees and mentors to continue the relationship after the program concludes.

Schwab also formally assigns mentors to mentees through the Private Client Advisory Board, a nationwide group that meets for monthly calls. Employees are encouraged to informally find mentors through Employee Resource Groups (ERGs), which provide forums for employees with similar backgrounds and interests to connect. ERGs at Schwab include a black professional association, a military veterans network and an LGBT pride network, among others.

Schwab also uses mentorship opportunities to attract young talent through the Mentor Fridays program. On Mentor Fridays, talented students from local colleges come to a nearby Schwab office and meet with different departments for one hour each. Students ask questions, learn about the various operating groups within Schwab and foster relationships with current employees. Many students who attend Mentor Fridays go on to become interns or employees of the firm.



MEASURES OF SUCCESS AND EXPECTATIONS

Analysts are typically assessed on their ability to quickly learn the ropes of the profession and any firm-specific services and processes. Measures may include the following:

Progress toward obtaining a professional designation

- Accuracy and efficiency in creating financial plans
- Ability to collaborate with team members
- Communication skills with peers and managers

COMPENSATION

Analysts are predominately compensated through salaries, with incentive compensation accounting for nine percent of the median total compensation.³ Analysts participate in two types of incentives:

1 Firm incentive

Analysts often participate in firmwide incentive pools funded by profitability or revenue. Their participation can be based on their salary as a percentage of firm payroll or a formula based on their performance evaluation scores.

2 Individual incentive

Analysts also frequently have incentive targets defined by individual goals or performance measures. The achievement of each goal or the completion of projects or initiatives is then rewarded by specific dollar amounts or an amount defined as a percentage of salary. Such individual incentives typically range between five and 15 percent of the salary of the position and are combined with firm and new business incentives.

Since business development is not a focus at the Analyst level, sales targets or business development goals are not factored in when designing “target” levels of pay. The figures in Table 2.7 show the typical compensation ranges of Analysts.

³ *InvestmentNews Research, 2017 InvestmentNews Adviser Compensation & Staffing Study* (New York: *InvestmentNews Research*, 2017), https://www.investmentnews.com/dcce/20170911/4/4/wp_sponsored/3471669.

The salaries shown in Table 2.7 are medians. Note that median base salary plus median incentive salary does not necessarily equal median total compensation.

In reviewing the information, please note that compensation information changes rapidly throughout the profession and that the data included in this report may quickly become outdated.

TABLE 2.7: Median base salary and incentive salary for Analysts

	BASE SALARY	INCENTIVE	TOTAL COMPENSATION
1st Quartile	\$50,000	\$4,000	\$56,000
Median	\$59,000	\$7,000	\$65,000
3rd Quartile	\$73,000	\$10,000	\$82,000

Source: 2017 InvestmentNews Adviser Compensation & Staffing Study

CRITERIA FOR PROMOTION TO ASSOCIATE ADVISOR

Analysts who show a strong ability to manage up, regularly communicating status updates and expressing when they have additional capacity, are good candidates for the Associate Advisor role. Potential candidates should also show interest in the financial planning career path.

One of the main factors firms evaluate when looking to promote Analysts is the capacity for growth and learning they have demonstrated. Analysts who have quickly picked up on the fundamentals of financial planning and the tools and processes the firm employs are typically considered for promotion. Individuals who have created many accurate financial plans with minimal supervision and who have shown mastery of financial planning software are also strong candidates. In addition, firms may be more likely to give a promotion to a candidate who has made significant progress toward a professional designation, such as the CFP® certification.

Yeske Buie Financial Planning Resident Program

Yeske Buie, a financial planning firm with offices in Vienna, Virginia, and San Francisco, California, has established a Financial Planning Resident program to give aspiring professionals the skills they need to start careers as financial planners. The term and approach to the “Resident” position is borrowed from the medical profession and is how doctors complete their professional training.

The three-year Financial Planning Resident program is designed to complete the competency requirements of the CFP® certification. Residents gain experience with the financial planning process and analysis, portfolio management and trading, client relationship building, plan implementation, management and training of interns and Residents. The program focuses on hands-on learning and education and includes professional, technical and administrative work.

Interestingly, the firm does not plan for Residents to become permanent employees. The goal is for all Residents to graduate and go to other firms or even start their own practices. Yeske Buie feels that residents are so productive and instrumental to the practice during their three-year tenure that there is a return on investment regardless of whether they stay on with the firm.



I II III IV V ADVANCED TECHNICAL STAGE
ASSOCIATE ADVISOR

The *Associate Advisor* position provides technical support to Principals/Partners, Lead Advisors/Managing Directors and Service Advisors. Although Associate Advisor is the most salient title given to this role, other titles used in the profession include Paraplanner, Senior Associate, Associate, Consultant and Associate Financial Planner. Many firms do not distinguish between the Associate Advisor and Analyst role and have only one rung in their career ladder before Service Advisor.

As with Analysts and Service Advisors, the primary motivation behind hiring Associate Advisors is to leverage the time of Lead Advisors/Managing Directors and Principals/Partners and create capacity. Associate Advisors are responsible for constructing financial plans by managing the financial planning software, inputting client data, building scenarios and creating a final deliverable for clients. Associate Advisors also work on keeping financial plans current and helping to answer basic client questions. They often attend client meetings and take extensive notes. While many Associate Advisors regularly correspond with clients, they do not normally give out financial advice.

JOB RESPONSIBILITIES

Associate Advisors do not normally have any business development responsibilities, but they may have firm responsibilities such as assisting with internal projects and strategic initiatives. This varies from firm to firm and is more likely to be found at smaller firms. The points below cover the general support, analytical support and client service responsibilities typical to the Associate Advisor position.

General Support

- Supports the Lead Advisor/Managing Director with analysis, client service and technical assistance
- Learns technical skills to prepare to service clients independently as a Service Advisor

Analytical Support

- Attends client meetings and takes extensive notes
- Analyzes client information and prepares reports and presentations
- Enters information into financial planning software and prepares draft financial plans
- Analyzes asset allocation and generates rebalancing trades
- Researches products and product pricing and contacts carriers for information
- Researches investment managers and investment services and their pricing
- Creates custom spreadsheets for analyzing purchase decisions or planning scenarios

Client Service

- Answers basic questions for clients (a license may be required for some)
- Shows clients how to access their accounts and read statements
- Presents product information or options to clients
- Handles requests for transfers of funds in and out of accounts
- Enters or updates cost basis information
- Fills out necessary forms for opening or maintaining accounts (if not performed by an Operations Specialist)
- Interfaces with the broker-dealer or custodian to obtain information or account data and convey service requests
- Maintains information in the CRM system
- Sets up and retrieves reports in the portfolio management system (e.g., Advent, PortfolioCenter, Albridge)
- Assists in generating performance reports



A DAY IN THE LIFE OF AN ASSOCIATE ADVISOR

While Associate Advisors may spend a few hours each day in client meetings or answering client emails, the bulk of their time is spent preparing and updating financial plans and other presentations or materials necessary for client meetings.

Associate Advisors may also spend time in internal meetings with Service Advisors or Lead Advisors/Managing Directors obtaining feedback on financial plans they have prepared and receiving input on plans they are currently preparing. Sometimes, though not necessarily daily, they may answer client inquiries or help clients via telephone with reading their statements or viewing their accounts. Most Associate Advisors will also set aside time to stay up-to-date on current financial events that may be impacting clients.

Some Associate Advisors are involved with professional networks such as the FPA and may set aside time in the evenings for professional events, although this is less of a focus for Associate Advisors than professionals later in their careers. While almost all Associate Advisors have no formal business development responsibilities, many ambitious professionals at this stage in their careers have begun to develop and execute a strategic plan to create a meaningful network. This may involve attending networking events, developing relationships with centers of influence and establishing relationships with more senior professionals at their firms.

TEAM INTERACTIONS

Depending on the firm model, Associate Advisors may work regularly with the same small set of Lead Advisors/Managing Directors and Service Advisors or, alternatively, with several teams throughout the firm. They normally report to a Lead Advisor/Managing Director or Service Advisor.

Though Associate Advisors do not have any formal management responsibilities, they often help to mentor and train Analysts. Associate Advisors often seek mentorship from Service Advisors or Lead Advisors/Managing Directors at their firms, who may or may not be their managers.

TRAINING

According to the *2017 InvestmentNews Adviser Compensation & Staffing Study*, Associate Advisors have a median of five years of experience, though this is not typically a requirement. Almost all Associate Advisors hold bachelor's degrees and some hold professional designations (30 percent hold the CFP® certification, 7 percent hold a CPA and 3 percent have a CFA). Many Associate Advisors have completed the CFP® certification coursework and examinations but do not yet meet the experience requirements to hold the designation.⁴

SKILLS REQUIRED AND SKILLS DEVELOPED

Associate Advisors are expected to have expertise in the following skill areas:

- General financial planning
- Technology used by the firm
- Firm-specific planning and service processes

Associate Advisors typically work to develop their skills in the following areas:

- Specialties and niches within financial planning such as investments, budgeting, taxes, risk management or estate planning
- Client communications

Altair Articulates Behavior Expectations

Altair Advisers is a Top 100 independent wealth management firm based in Chicago, Illinois. The firm uses a five-step career path to guide professionals in the development of their skills through gradually increasing responsibilities. Altair uses a “spaghetti structure” when it comes to professionals working under the direction of different leads. Every Associate Consultant and Senior Consultant (which are the terms for Analyst and Associate Advisor used by Altair) works with multiple Directors (i.e., Lead Advisors/Managing Directors) and Principals/Partners. The firm believes that this promotes teamwork and client service.

CEO Rebekah Kohmescher has thought extensively about her firm’s diversity strategy, particularly the idea of behavioral expectations that often go unspoken which then leads to an environment that is not inclusive since we tend to share informally with those who are like us. Because both of her parents were CPAs and she developed her career in a major accounting firm, she was familiar with the world of professional services and always aware of what was expected from her. However, when Rebekah recognized that these expectations had never actually been defined, she came up with a logical solution: she wrote down all of the previously unspoken expectations and distributed the document to her staff. This *Consultant Handbook and Career Matrix* helps professionals understand how to improve their responsiveness, sense of accountability and collaboration. The Handbook gives valuable direction on how to handle heavy workloads, balance life with work and be a good teammate, as well as what excellence looks like at each step of the career path.

⁴ *InvestmentNews Research, 2017 Compensation and Staffing Study.*

MEASURES OF SUCCESS AND EXPECTATIONS

Associate Advisors are typically assessed on their ability to master the tools and planning processes used by their firms to service clients. Measures may include the following:

- Development and mastery of technical skills
- Completion of education and achievement of degrees and designations
- Ability to consistently meet deadlines

COMPENSATION

Associate Advisors are predominately compensated through salaries, with incentive compensation accounting for nine percent of the median total compensation.⁵ Associate Advisors participate in two types of incentives:

1 Firm incentive

Associate Advisors often participate in firmwide incentive pools funded by profitability or revenue. Their participation can be based on their salary as a percentage of firm payroll or a formula based on their performance evaluation scores.

2 Individual incentive

Associate Advisors also frequently have incentive targets defined by individual goals or performance measures. The achievement of each goal or the completion of projects or initiatives is then rewarded by specific dollar amounts or an amount defined as a percentage of salary. Such individual incentives typically range between five and 15 percent of the salary of the position and are combined with firm and new business incentives.

Associate Advisors may also be eligible for incentive compensation when they bring in new clients, though firms do not usually have targets for new business development at the Associate Advisor stage. As a result, such compensation is usually not factored in when designing the target levels of pay. The figures in Table 2.8 show the typical compensation ranges of Associate Advisors.

The salaries shown in Table 2.8 are medians. Note that median base salary plus median incentive salary does not necessarily equal median total compensation.

In reviewing the information, please note that compensation information changes rapidly throughout the profession and that the data included in this report may quickly become outdated.

TABLE 2.8: Median base salary and incentive salary for Associate Advisors

	BASE SALARY	INCENTIVE	TOTAL COMPENSATION
1st Quartile	\$54,000	\$5,000	\$59,000
Median	\$60,000	\$6,000	\$68,000
3rd Quartile	\$68,000	\$8,000	\$75,000

Source: 2017 InvestmentNews Adviser Compensation & Staffing Study

⁵ InvestmentNews Research, 2017 Compensation & Staffing Study.

CRITERIA FOR PROMOTION TO SERVICE ADVISOR

Associate Advisors who have a very robust technical understanding of both general and firm-specific financial planning processes may be ready for a promotion to the Service Advisor position. Most firms require Associate Advisors to have the CFP® certification in order to be eligible for promotion, though some will accept the CFA or CPA as a substitute. A Series 65 securities license may also be required, as many Service Advisors provide advice directly to clients.

In addition to having the aforementioned educational requirements, Associate Advisors looking for a promotion should be comfortable speaking with clients and show a high level of expertise in the financial planning process. It is also beneficial for Associate Advisors to have developed specialized knowledge within a subfield of financial planning (e.g., estate planning, or tax planning) when vying for a promotion. Many firms also look at whether the Associate Advisor has helped train more junior staff such as Analysts and Client Service Administrators, as the Service Advisor position typically assumes a greater leadership role than that of an Associate Advisor.

6 Meridian Offers Technical Training Program

6 Meridian, a wealth management firm based in Wichita, Kansas, describes itself as a “true team.” The firm builds its team by recruiting professionals with varied backgrounds, some of whom have previous experience in the industry and some of whom are just starting out in their careers. Developing the financial planning, technical and client relationship skills of its professionals is a key priority at 6 Meridian.

The firm has partnered with the College for Financial Planning and Kaplan Financial Education to provide online training for its Associates (i.e., Associate Advisors). This 24-month training program pairs content and classes offered by Kaplan with internal coaching offered by the firm. The aim of the program is to provide Associates with the knowledge and skills they need to earn the CFP® certification and necessary securities licenses.



I II III **IV** V SERVICE STAGE
SERVICE ADVISOR

The *Service Advisor* position is often the first professional hire a solo practitioner makes. Professional titles for the Service Advisor position vary across firms, with the most common being Associate Wealth Manager, Associate Investment Advisor, Financial Advisor and Financial Planner. Firms seek to leverage the time and expertise of their Lead Advisors/Managing Directors by having Service Advisors assist them and at times replace them in the execution of all steps that are part of the client service process.

Service Advisor responsibilities are broad and include financial plan preparation and delivery, investment analysis and recommendations, wealth management analysis and recommendations and other services delivered by the firm. While Service Advisors may lead relationships for some clients (often the smaller accounts), the distinction between Lead Advisor/Managing Director and Service Advisor is generally a function of the professional's primary responsibility. For example, an advisor who serves as lead in some client relationships while otherwise serving in a service position will typically hold the Service Advisor title.

JOB RESPONSIBILITIES

Service Advisors are expected to meet the needs of clients as determined by Lead Advisors/Managing Directors while sometimes identifying client needs themselves. Their client responsibilities include preparing and implementing financial plans, tracking correspondence, actively participating in client meetings and working on follow-up items after meetings. Service Advisors are also expected to help retain existing clients by providing outstanding service.

In addition to their client responsibilities, Service Advisors have team responsibilities. These are normally a bit less formal, as most Service Advisors do not have defined management responsibilities. They can play an integral role in supervising the work of Analysts, Associate Advisors and operations staff, often tracking the quality and timeliness of their projects. They can also help coach and mentor less experienced professionals on financial planning methodologies and firm-specific processes.

In addition to team and client responsibilities, Service Advisors may have growth and firm responsibilities as well, such as contributing to strategic initiatives. The points below cover the general support and advisory responsibilities typical to the Service Advisor position.

General Support

- Carries out planning, analysis, investment and other decisions that affect client relationships, consulting with the Lead Advisor/Managing Director on complex decisions as needed
- Grows existing client relationships by adding more assets under management, identifying opportunities for additional services and seeking referrals
- Leverages the time and expertise of Lead Advisors/Managing Directors by assisting them and at times replacing them in the execution of steps in the client service process

Advisory

- Prepares and updates financial plans, working with clients to obtain the necessary information and ensuring that it is accurately entered into the firm's financial planning systems
- Works with Lead Advisors/Managing Directors to discuss, review and finalize financial planning assumptions and design decisions
- Works with clients, under the supervision of Lead Advisors/Managing Directors, to obtain information and prepare risk profiles and investment policy statements
- Coordinates the transfer of client assets to the firm during new client onboarding, working closely with the Operations Group
- Develops asset allocation strategies and works independently or with the Investment Group to implement (in firms without an Investment Department, may be responsible for all or most of the initial portfolio creation)
- Rebalances portfolios as directed by the Investment Committee and the Lead Advisor/Managing Director working with the client
- Participates in all client meetings and adds value to meetings by delivering presentations, facilitating discussions and preparing information
- Creates custom worksheets and analyses where needed to answer client questions or research investment opportunities
- Researches new investment products and vendors
- Facilitates the adoption of new technology by client service teams and trains others as necessary
- Frequently supervises and trains entry-level positions and the Operations Group
- Advises clients on appropriate financial products in the context of their plans

Position Variations

Business development expectations for Service Advisors vary throughout the profession. Growth-oriented firms may assign more business development responsibilities to their Service Advisors than firms that have a national brand and several marketing efforts already underway. Many firms wait until Service Advisors are promoted to Lead Advisors/Managing Directors before formalizing any business development expectations.

Firm and team responsibilities also vary throughout the profession. For example, smaller firms may expect Service Advisors to contribute to firm activities such as integrating new systems or training new hires, whereas larger firms may already have workforces responsible for those tasks.

A DAY IN THE LIFE OF A SERVICE ADVISOR

The majority of a Service Advisor's day consists of meeting with clients, preparing financial plans, corresponding with clients via phone or email and coordinating transactions on behalf of clients, sometimes with the help of the Investment Group. Most firms expect their Service Advisors to answer client emails the same day they are sent if within normal operating hours, and Service Advisors diligently track their emails and phone calls with clients.

Client meetings typically account for between one and three hours of a Service Advisor's day, with meeting prep and follow-up accounting for another two to three hours. Service Advisors typically meet regularly with Lead Advisors/Managing Directors, Associate Advisors and Analysts and sometimes help manage internal meetings.

While business development responsibilities for this position vary throughout the profession, most Service Advisors allocate time both inside and outside working hours to create a meaningful network by participating in professional organizations and conferences and building relationships with centers of influence.

TEAM INTERACTIONS

Depending on the firm model, Service Advisors may work with a single Lead Advisor/Managing Director or several. In the former case, Service Advisors are assigned to static teams comprising of specific Lead Advisors/Managing Directors, Associate Advisors, Analysts and Operations Specialists. In the latter case, Service Advisors work with a larger pool of other professionals.

The position is typically managed by a Principal/Partner or Lead Advisor/Managing Director who sometimes also serves as a mentor. In larger firms and those that do not assign Service Advisors to specific teams, however, it is not common for mentors to also be direct managers.

While most Service Advisors have no direct management responsibilities, they often manage projects, delegate tasks to Associate Advisors and Analysts and provide project updates to Lead Advisors/Managing Directors and Principals/Partners. They also often coach and provide performance feedback to junior-level professionals, even if they are not involved in the firm's formal performance review process. They can also serve informally as mentors to professionals who are earlier in their careers, helping them develop technical and business acumen and adapt to the firm's culture and policies.

TRAINING

According to the *2017 InvestmentNews Adviser Compensation & Staffing Study*, Service Advisors have an average of 10 years of experience as financial professionals, although those who have recently been promoted may have less. While years of experience is normally considered a criterion for promotion from Associate Advisor to Service Advisor, financial planning knowledge and client service skills are more important factors.

Service Advisors have typically earned a bachelor's degree and the Series 65 securities license. Many also hold advanced certifications and designations (60 percent hold the CFP® certification, eight percent have a CPA and six percent hold a CFA).⁶ Many firms require Associate Advisors to obtain the CFP® certification before they are eligible to be promoted to Service Advisors.

SKILLS REQUIRED AND SKILLS DEVELOPED

Service Advisors are expected to have expertise in the following skill areas:

- Financial planning and financial advice
- Client service
- Compliance process
- Project/time management
- Client and internal communications

Service Advisors typically work to develop their skills in the following areas:

- Relationship management
- Networking
- Business development
- Management and leadership
- Coaching and mentorship

MEASURES OF SUCCESS AND EXPECTATIONS

Service Advisors are typically assessed on their financial acumen, as well as their ability to service, and sometimes retain, clients. Many organizations also assess Service Advisors on their revenue responsibilities and new revenue generated. Measures may include the following:

- Quality of help and support as evaluated by Lead Advisors/Managing Directors and Principals/Partners
- Client retention: every organization sets its own retention goals
- Number of clients serviced as “second chair”
- Number of clients serviced as “first chair”
- Achievement of goals set and agreed upon with the organization
- Accuracy and completion of financial plans and any follow-up client deliverables

⁶ *InvestmentNews Research, 2017 Study.*

COMPENSATION

Service Advisors are predominately compensated through salaries, with incentive compensation accounting for 12 percent of the median total compensation.⁷ It is not unusual to see incentive compensation targets of 10 to 20 percent of total compensation. Service Advisors participate in two types of incentives:

1 Firm incentive

Service Advisors often participate in firmwide incentive pools funded by profitability or revenue. Their participation can be based on their salary as a percentage of firm payroll or a formula based on their performance evaluation scores.

2 Individual incentive

Service Advisors also frequently have incentive targets defined by individual goals or performance measures. The achievement of each goal or the completion of projects or initiatives is then rewarded by specific dollar amounts or an amount defined as a percentage of salary.

Service Advisors may also be eligible for incentive compensation when they bring in new clients, though firms do not usually have targets (or the targets are very low) for new business development at the Service Advisor position. As a result, such compensation is usually not factored in when designing the target levels of pay. The figures in Table 2.9 show the typical compensation ranges of Service Advisors.

The salaries shown in Table 2.9 are medians. Note that median base salary plus median incentive salary does not necessarily equal median total compensation.

In reviewing the information, please note that compensation information changes rapidly throughout the profession and that the data included in this report may quickly become outdated.

TABLE 2.9: Median base salary and incentive salary for Service Advisors

	BASE SALARY	INCENTIVE	TOTAL COMPENSATION
1st Quartile	\$69,000	\$6,000	\$76,000
Median	\$80,000	\$12,000	\$97,000
3rd Quartile	\$100,000	\$22,000	\$123,000

Source: 2017 InvestmentNews Adviser Compensation & Staffing Study

⁷ InvestmentNews Research, 2017 Compensation & Staffing Study.

CRITERIA FOR PROMOTION TO LEAD ADVISOR/ MANAGING DIRECTOR

At the Service Advisor level, professionals have likely obtained the training and designations they need to travel the full length of the career path. As a consequence, candidates for promotion are evaluated purely on their demonstrated skills on the job.

Above all other measures, Service Advisors must illustrate expertise in client relationship management to be considered for promotion to Lead Advisor/Managing Director. Service Advisors who have begun to assume a “first chair” role with clients and who show an interest and skill level in leading client relationships that is matched with a commensurate rate of client retention may be ready for promotion.

Many firms also require Service Advisors to contribute to business development before being considered for a promotion. Other firms require a demonstrated commitment to expanding one’s network and building a strong reputation. Firms may also evaluate their Service Advisors on their interest in and ability to manage, lead and mentor other professionals, as many Lead Advisors/Managing Directors formally assume management responsibilities.

Moss Adams Serves Clients Through a Team Structure

Moss Adams Wealth Advisors is the wealth management division of Moss Adams LLC, one of the 15 largest public accounting firms in the U.S. Headquartered in Seattle, Washington, Moss Adams employs more than 2,900 professionals and staff in the delivery of accounting, consulting and wealth management services.

Moss Adams has a well-established career path that is used for the coaching and skill development of its professionals. The path progresses from Paraplanner to Associate Advisor (level two), Financial Advisor (level three), Senior Financial Advisor (level four) and Partner. The Financial Advisor position, which requires professionals to obtain the CFP® certification, plays a very important role in the firm’s team-based service model that relies on a team of professionals to surround clients with care and professional advice.

The Financial Advisor position still serves in a second-chair role that complements the relationship leader on the firm’s most complex clients. Additionally, Financial Advisors lead relationships of their own, just a smaller number compared to Senior Financial Advisors and Partners. Financial Advisors also participate in the training and developing of professionals in the two levels below them in the career path and support the marketing activities of the firm. In addition, Financial Advisors are expected to deliver presentations within the firm and the target market, actively network and build their reputations as experts. These varied activities prepare Financial Advisors for the increasing business development and leadership responsibilities they will encounter in the next two positions on the career path.



I II III IV **V** RELATIONSHIP STAGE
LEAD ADVISOR/MANAGING DIRECTOR

The *Lead Advisor/Managing Director* position is the cornerstone of the financial advisory profession. This position has primary responsibility for engaging with clients, diagnosing their needs, recommending financial solutions and plans, and executing the prescribed course of action. If financial professionals were compared to the medical profession, Lead Advisors/Managing Directors would be the doctors.

Many firms, particularly firms with backgrounds in public accounting or consulting, use the position titles Director and Managing Director, or Manager and Senior Manager. All of these positions emphasize the independent delivery of planning and advice to clients, with the added descriptor “senior” identifying higher expectations in terms of the number and complexity of client engagements. Managing Directors and Senior Managers also have the added responsibilities of team development and management.

The same position has different titles in different firms: Financial Advisor, Financial Planner, Wealth Manager or Financial Consultant are frequently used titles. To emphasize the leading role of the position in the client service process, many organizations also add the descriptor “senior,” as in Senior Advisor or Senior Financial Planner.

The Lead Advisor/Managing Director position typically reports to the Principal/Partner position or a position responsible for overseeing the entire client services team such as a Managing Partner or Managing Director of Client Services.

JOB RESPONSIBILITIES

The Lead Advisor/Managing Director position has broad responsibilities in four core areas:

1 Client service and relationship management

Lead Advisors/Managing Directors are responsible for identifying client needs and managing the delivery of services to meet those needs.

2 Team management and staff development

The position coordinates the activities of the client services team to ensure that client services are delivered effectively and meet the quality and compliance standards of the firm. Lead Advisors/Managing Directors are expected to lead or assist in the development of professionals by mentoring professionals in the Service Advisor, Associate Advisor and Analyst positions.

3 Business development

Lead Advisors/Managing Directors are commonly expected to contribute to the growth of the firm by attracting new clients and identifying opportunities to grow existing relationships. This can be done both through positioning the professional as an expert who has a reputation in a target market and by contributing to the firm's efforts to market and brand.

4 Firm development

Lead Advisors/Managing Directors are expected to actively participate in various committees and project teams that contribute to firm development, the implementation of business strategies and initiatives, and the culture of the firm.

The responsibilities of the Lead Advisor/Managing Director position in these four core areas are described in greater detail below.

Client Service and Relationship Management

- Manages client relationships assigned by the firm and helps clients achieve their goals
- Makes critical client decisions such as creating or preparing, reviewing and presenting financial plans
- Leads the implementation of planning decisions and assigns client service steps to the rest of the team
- Follows the client service process defined by the firm and coordinates the consistent delivery of services to clients
- Takes ultimate responsibility for the quality control of client deliverables such as plans, analyses or presentations
- Communicates proactively and consistently with clients to identify changes in their financial lives and needs that should be met
- Builds strong relationships with clients through consistent and caring communication
- Maintains high professional expertise and continues to learn new processes, theories and best practices of client service
- Maintains professional licenses and designations that are necessary and desirable in client service

Team Management and Staff Development

- Coordinates and manages the client services team, including Service Advisors, support staff and administrative staff
- Supervises and coordinates the work of Analysts, Client Service Associates and Associate Advisors who are on the same client services team
- Provides consistent and constructive feedback to other professionals on the client services team
- Participates in the training of professional staff by supporting existing training programs or working one-on-one with professionals

Business Development

- Develops specialized knowledge and personal presence in a defined market that fits the strategy of the firm
- Develops and executes a personal business plan in unison with the firm-level marketing and growth plan in order to create new business opportunities and attract new clients to the firm
- Contributes to the building of the firm brand through active participation in marketing initiatives organized by the firm
- Proactively develops a network of contacts in the professional community that can create opportunities for new relationships
- Seeks opportunities to grow existing client relationships through increased wallet share
- Engages with clients to create referral opportunities from existing clients

Firm Development

- May participate in projects and initiatives that improve the firm and its culture
- Serves on committees that oversee important firm functions such as the Marketing Committee, Technology Committee and Investment Committee
- May lead or “captain” projects that improve management processes in the firm, e.g., a project to improve performance evaluation processes or a project to train all employees on a new software system

Position Variations

The responsibilities of the Lead Advisor/Managing Director position are significant and diverse. In some firms, Lead Advisors/Managing Directors may not have business development responsibilities, or such responsibilities may be more limited in scope. Typically, firms that have strong firm-level branding and business development may not expect Lead Advisors/Managing Directors to develop new business. In such firms, new clients are assigned to professionals by the management of the firm. This is particularly true for Lead Advisors/Managing Directors working within internal call centers. There are also firms that reserve business development responsibilities for the Principal/Partner position (described in Section V of this chapter) and therefore do not expect business development from the Lead Advisor/Managing Director position.

The scope of firm contribution activities can vary significantly from firm to firm. Smaller firms and firms with independent backgrounds tend to expect this position to contribute to firm activities. Firms with institutional backgrounds such as financial institutions and national organizations, on the other hand, may not expect a significant firm contribution from this position.

A DAY IN THE LIFE OF A LEAD ADVISOR/ MANAGING DIRECTOR

The majority of a Lead Advisor/Managing Director's day is reserved for meeting with existing clients. Firms budget one to three hours for an annual strategy meeting with a client. Lead Advisors/Managing Directors also allocate one hour of preparation time prior to the meeting, which is dedicated to reviewing the client's financial plan and investment accounts. The meeting is commonly held with a Service Advisor and/or an Associate Advisor joining the Lead Advisor/Managing Director and sharing any preparatory work they have created. Most Lead Advisors/Managing Directors we interviewed schedule between one and three client meetings per day.

Throughout the day, Lead Advisors/Managing Directors allocate time to return email and voicemail messages from clients. In most firms, the standard of responsiveness is returning messages the same day they are sent. Lead Advisors/Managing Directors allocate an hour or two to such correspondence.

Frequently, client communications require calling the client with information or an explanation. Such calls can be delegated to Service Advisors, Associate Advisors or Client Service Administrators but often require the attention of the Lead Advisor/Managing Director.

Lead Advisors/Managing Directors are valuable participants in internal meetings. Many are members of Investment Committees or other project committees within the firm. Lead Advisors/Managing Directors may chair such committees and have additional responsibilities for organizing the functioning of the project team. Even within large national firms where Lead Advisors/Managing Directors have less involvement in management, they may be part of team structures or project teams.

Networking and business development frequently occupy the social hours of the day. Many Lead Advisors/Managing Directors market and develop new business through social and non-profit organizations that usually meet in the evening hours or over weekends. This requires a significant time investment in what are non-working hours for many other occupations.

Lead Advisors/Managing Directors also meet professionally with centers of influence and existing clients for lunch meetings. It is typical for such meetings to be a mix of socializing, business development and client relationship management.

The Lead Advisor/Managing Director position may also require travel. While most Lead Advisors/Managing Directors report less than 20 days of travel per year, many need to visit with clients who live away from the office location. Most Lead Advisors/Managing Directors work locally, though it is highly typical for Lead Advisors/Managing Directors to meet clients away from the office and travel to see them. While video-conferencing is in wide use, many Lead Advisors/Managing Directors still allocate time for face-to-face meetings.

Lead Advisors/Managing Directors also dedicate time to continuing professional education and industry connections. Many belong to professional organizations such as the FPA. They also attend conferences held by their firms or related organizations such as custodians or other strategic partners. Practice management has become a critical skill for all Lead Advisors/Managing Directors, and they attend industry workshops, study groups and other educational meetings to develop such knowledge.

Most Lead Advisors/Managing Directors interviewed report working 50 to 60 hours per week. Balancing personal and professional life is one of the challenges of the profession, and each professional finds his or her own techniques for tackling a demanding schedule. Most Lead Advisors/Managing Directors take advantage of the flexible schedule to better integrate their work and personal tasks.

TEAM INTERACTIONS

Lead Advisors/Managing Directors work very closely with the client services team. Depending on the size of the organization and the organizational principles, Lead Advisors/Managing Directors may either captain a dedicated service team or work with a “pool” of Service Advisors, Associate Advisors and Client Service Associates (CSAs).

Some firms prefer to assign each Lead Advisor/Managing Director one or two Service Advisors and one or two CSAs and have that team work together exclusively. This creates stability in client relationships and allows the team to operate smoothly and exchange information fluidly.

Other organizations prefer to take a “pooled” approach, with Service Advisors and CSAs working with multiple Lead Advisors/Managing Directors. While the teams are “fixed” from a client perspective, internally all professionals work with each other on different relationships with clients. This exposes Service Advisors to the style and knowledge of multiple professionals, encourages standardization of roles and practices and allows professionals to find their mentors more naturally.

Lead Advisors/Managing Directors are by nature of their position team leaders. They may also have direct supervision over positions such as Analyst, Associate Advisor or Service Advisor.

TRAINING

To practice as a Lead Advisor/Managing Director, an individual is required to pass the Series 65 — Uniform Investment Adviser Law Exam. This exam is administered by FINRA (Financial Industry Regulatory Authority) but does not require the sponsorship of a broker-dealer.

In addition to a license, Lead Advisors/Managing Directors typically have bachelor’s degrees and many hold advanced certifications and designations. According to the *2017 InvestmentNews Compensation & Staffing Study*, 61 percent of Lead Advisors/Managing Directors hold the CFP® certification. Twelve percent of Lead Advisors/Managing Directors are also CPAs, and 9 percent hold the CFA charter. Each designation carries its own requirements for continuing professional education.

On average, Lead Advisors/Managing Directors have 17 years of experience as financial professionals. Those who are newly promoted to the position typically have seven years of experience as financial professionals. However, years of experience is not the only criterion for promotion into the position. Other factors such as the ability to service clients, a high level of expertise and business development skills are usually considered to be much more important.

SKILLS REQUIRED AND SKILLS DEVELOPED

Lead Advisors/Managing Directors are expected to have expertise in the following skill areas:

- Financial planning and financial advice
- Client service and client relationship management
- Client communications
- Directing and organizing the team servicing the client
- Project managing service delivery

Depending on the organization, Lead Advisors/Managing Directors are also typically expected to be proficient in the following skill areas:

- Developing new client relationships
- Contributing to the marketing and branding of the firm
- Providing feedback and managing the performance of their team

Lead Advisors/Managing Directors typically work to develop their skills in the following areas:

- Business development: becoming more effective and meeting higher expectations
- Expertise: selecting a niche or a specialty practice and deepening their professional expertise therein
- Leadership: leading by example and living the values of the firm
- Business decisions: contributing to the management of the firm

MEASURES OF SUCCESS AND EXPECTATIONS

Lead Advisors/Managing Directors are typically assessed on their ability to service and retain existing clients and attract new client relationships. Measures may include the following:

- Revenue responsibility: the *2017 InvestmentNews Compensation & Staffing Study* suggests that Lead Advisors/Managing Directors have lead responsibility for a median of \$300,000 in revenue
- Client retention: every organization sets its own retention goals
- New revenue generated: the *2016 InvestmentNews Compensation & Staffing Study* suggests that Lead Advisors/Managing Directors are expected to generate a median of \$50,000 in new revenue
- Achievement of goals set and agreed upon with the organization
- Completion of tasks assigned during the strategic planning process of the firm

COMPENSATION

There are two primary methods of compensation for Lead Advisors/Managing Directors: salary-based and revenue-based.

1 Salary-based compensation

The majority of independent wealth management and investment advisory firms compensate advisors through a salary with bonuses complementing the pay package.

2 Revenue-based compensation

The majority of broker-dealer organizations compensate advisors based on the revenue for which they are responsible.

Salary-based Compensation

For organizations that primarily utilize salaries as a compensation method, the salaries shown in Table 2.10 are medians. Note that median base salary plus median incentive salary does not necessarily equal median total compensation.

In reviewing the information, please note that compensation information changes rapidly throughout the profession and that the data included in this report may quickly become outdated.

TABLE 2.10: Median base salary and incentive salary for Lead Advisors/Managing Directors

	BASE SALARY	INCENTIVE	TOTAL COMPENSATION
1st Quartile	\$100,000	\$15,000	\$125,000
Median	\$135,000	\$28,000	\$163,000
3rd Quartile	\$186,000	\$58,000	\$263,000

Source: 2017 InvestmentNews Adviser Compensation & Staffing Study

The Lead Advisor/Managing Director position has a high level of impact on the profitability and success of the firm and therefore lends itself well to incentive compensation of variable types with different sources of funding. While median incentive compensation for the position accounts for 17 percent of the median total compensation, it is not unusual to see incentive compensation targets of 20 to 30 percent of total compensation.

Revenue-based Compensation

Revenue-based compensation “pays out” to Lead Advisors/Managing Directors a percentage of the revenue they generate. This percentage varies based on the firm. According to *On Wall Street* magazine’s 2017 compensation survey, the compensation for a Lead Advisor/Managing Director ranges from 30 to 46 percent of the revenue for which they are responsible.⁸

A Lead Advisor/Managing Director with \$400,000 in revenue at a regional broker-dealer will be compensated between 40 and 46 percent of revenue. At that same level of revenue, a Lead Advisor/Managing Director at a traditional national firm will be compensated between 35 and 41 percent of revenue.

⁸ Andrew Welsch, “Best Pay for the \$400K Adviser at Wirehouse and Regional BDs,” *On Wall Street* (April 20, 2017), <https://onwallstreet.financial-planning.com/slideshow/best-pay-in-2017-for-the-400k-adviser-at-wirehouse-and-regional-bds>.

CRITERIA FOR PROMOTION TO PRINCIPAL/PARTNER

The Lead Advisor/Managing Director is the top step in the career path for many firms. At this point, Lead Advisors/Managing Directors focus their efforts on growing their “book of business” and expanding the number of clients with whom they work.

In many firms, Lead Advisors/Managing Directors are given the opportunity to buy into the ownership of the firm and become Principals/Partners. (The Principal/Partner position is covered in the next section of this chapter.) Partnership criteria should reflect the culture and values of the firm. The best way to design criteria is to look at the values held by the firm and ask how it would be demonstrated that a professional really lives by those values.

Most firms design partnership criteria that fall into these broad categories:

- Firm contributions: contributes to growth, client relationships, the development of intellectual capital or the creation of processes and systems
- Productivity: works with many clients, manages revenue or oversees departments and teams within the firm
- Leadership: demonstrates the ability to lead by example and inspire others to follow
- Character: held in high regard and well respected in the profession, firm and community
- Teamwork: has been accepted and supported by peers in the firm and has been equally supportive and respectful

In some organizations, Lead Advisors/Managing Directors may choose to focus their efforts on creating a “team practice” and becoming a Team Principal. This step resembles the promotion to Principal/Partner and is once again driven by the desire to build and lead a business. In some organizations, Lead Advisors/Managing Directors may also choose to pursue careers in management, seeking roles such as Branch Manager or Executive.



I II III IV V BUSINESS STAGE
PRINCIPAL/PARTNER

The *Principal/Partner* position is as much a functional position as it is a symbolic one. Principals/Partners in the advisory profession are recognized as having achieved the highest level of expertise in their professions and as being able to handle the highest level of responsibilities in their firms. Professionally, the position of Principal/Partner overlaps significantly with the Lead Advisor/Managing Director position, but it has significantly higher expectations for productivity level (i.e., revenue and number of clients), business development (i.e., new revenue developed and new clients added) and the development of others.

The position of Principal/Partner signals the connection between the advisory profession and other professions such as public accounting, consulting and law. The Principal/Partner position is also symbolically significant to “independent” firms — those that are owned and operated by practicing advisors. In such firms, the position signifies the commitment and investment that the professionals have made in their firms.

JOB RESPONSIBILITIES

Principals/Partners have broad responsibilities in four core areas that closely resemble the responsibilities of Lead Advisors/Managing Directors:

1 Client service and relationship management

Principals/Partners are responsible for leading the largest and most complex client relationships in the firm. Principals/Partners are also expected to have significantly larger revenue responsibilities than Lead Advisors/Managing Directors.

2 Team management and staff development

Principals/Partners supervise, coach and mentor Lead Advisors/Managing Directors and Service Advisors. They work, in conjunction with the firm, to improve the relationship management and business development skills of Lead Advisors/Managing Directors.

3 Business development

In many firms, Principals/Partners are the primary business developers and are expected to add new relationships to the firm and lead initiatives related to building new markets and new specialties.

4 Firm development

Principals/Partners participate actively in improving the firm and are expected to lead by example. In smaller firms, many Principals/Partners also hold management positions as a second responsibility. In larger firms, Principals/Partners actively participate in committees such as the Investment Committee and the Marketing Committee.

The responsibilities of the Principal/Partner position in these four core areas are described in greater detail below.

Client Service and Relationship Management

- Manages client relationships focusing on the most complex and largest clients
- Responsible for a significant amount of revenue as defined by the firm
- Acts as Lead Advisor/Managing Director, with responsibilities consistent with the responsibilities of a Lead Advisor/Managing Director
- Contributes actively to the intellectual capital of the firm by developing new client service methods and knowledge

Team Management and Staff Development

- Coaches the Lead Advisors/Managing Directors and Service Advisors under her or his supervision
- Provides feedback to Lead Advisors/Managing Directors and helps them improve their business development, leadership and client management skills
- Mentors Lead Advisors/Managing Directors and Service Advisors and takes responsibility for their career development
- Works with the firm to identify the staffing needs of the advisory team and to recruit professionals who are needed for the team
- Uses professional connections and community participation to promote the firm as an employer of choice
- Acts as an ambassador for the culture of the firm and its core values

Business Development

- Acts as a recognized expert in his or her chosen field and works to develop his or her professional and market reputation
- Executes a personal business development plan in concert with the firm's marketing plan
- Adds a number of new client relationships to the firm
- Acts as an ambassador and promoter of the firm's brand
- Proactively develops a network of contacts in the professional community that can create opportunities for new relationships
- Seeks opportunities to grow existing client relationships through increased wallet-share
- Engages with clients to create referral opportunities from existing clients

Firm Development

- Serves on key committees that oversee important firm functions such as the Marketing Committee, Technology Committee and Investment Committee
- May fulfill a management function such as CFO or CTO in small firms
- Engages in the firm's governance process by educating himself or herself on the key decisions facing the firm and working with the firm's governance structure to participate in such decisions
- Helps the firm communicate its strategy and priorities to the team

Position Variations

The Principal/Partner position is most common in firms that are owned and operated by the advisors who work in the firms, often referred to as "independent firms." In such firms, the Principal/Partner role emerges as a position when the firm reaches \$2 million or more in revenue. The Principal/Partner position remains a key feature of the organizational structure and career path of some of the largest advisory firms in the profession. The position is similar to that found in accounting firms, law firms, investment banking firms and business consulting firms and reinforces the connection between these industries and the advisory profession.

In smaller firms (less than \$10 million in revenue), Principals/Partners may have significant management responsibilities, essentially acting as the executive team for the firm. As firms grow larger, the management responsibilities are typically transferred to a professional executive team.

A key point of differentiation between the Principal/Partner and the Lead Advisor/Managing Director role is the business development responsibilities often expected from Principals/Partners. In most firms, Principals/Partners are expected to have a well-established record as new business developers and to be able to contribute in a substantial way to growth.

A DAY IN THE LIFE OF A PRINCIPAL/PARTNER

Principals/Partners typically budget between 50 and 60 percent of their time to the service and relationship management of the firm's premier clients. Much like Lead Advisors/Managing Directors, Principals/Partners may have one or two client meetings each day.

Similar to Lead Advisors/Managing Directors, Principals/Partners spend a significant amount of time responding to clients through correspondence and phone calls.

Principals/Partners are expected to dedicate a substantial amount of time to coaching and developing their team. This includes coaching meetings, reviewing and helping prepare personal plans, and debriefing team members after client meetings or new business meetings.

Principals/Partners often have one or two firm meetings each day as part of their participation in the firm's management. Overall, participation in management may occupy 20 to 30 percent of a Principal/Partner's time.

TEAM INTERACTIONS

Principals/Partners are usually team leaders and responsible for the performance of a team they oversee. Principals/Partners may organize team meetings and chair those meetings. They coach and mentor team members and are responsible for improving their skills and growing their careers.

Principals/Partners rarely work alone and typically attend all client meetings and business development meetings together with Lead Advisors/Managing Directors and Service Advisors.

Principals/Partners are also leaders of the client service team. In many organizations across the profession, Principals/Partners are looking to improve their skills in communicating and interacting with their youngest colleagues.

Tolleson Wealth Management's Reverse Mentor Program Puts Millennials in the Coaching Role

John Tolleson founded Tolleson Wealth Management in 1997 as a single-family office to manage his family's needs. Over the past two decades, the Dallas-based organization has grown into a multi-family office and is now one of the larger wealth management firms in the area. Tolleson Wealth Management takes pride in having a family-oriented and team-based culture that fosters innovation and collaboration. The Reverse Mentor Program is one example of that innovation and collaboration and aims to help senior management understand how young professionals (particularly millennials) think and work.

In the Reverse Mentor Program — which is managed by two of the firm's young leaders — young professionals serve as mentors to senior leaders rather than the other way around. The program provides up-and-coming professionals with the opportunity to develop their leadership skills while giving senior professionals insight into the next generation. Both senior leaders and young professionals report that they derive a lot of value from the reverse mentoring process.

TRAINING

Principals/Partners must pass the Series 65 - Uniform Investment Adviser Law Exam. This exam is administered by FINRA (Financial Industry Regulatory Authority) but does not require the sponsorship of a broker-dealer.

In addition to a license, Principals/Partners typically have bachelor's degrees and many hold advanced certifications and designations. According to the *2017 InvestmentNews Adviser Compensation & Staffing Study*, 64 percent of Principals/Partners hold the CFP® certification. Thirteen percent of Principals/Partners are also CPAs, and 15 percent hold the CFA charter. Each designation carries its own requirements for continuing professional education. Many Principals/Partners also hold MBA degrees.

On average, Principals/Partners have 22 years of experience as financial professionals. Those who are newly promoted to the position typically have nine years of experience as financial professionals. However, years of experience is not the only criterion for promotion into the position. Other factors such as the ability to service clients, a high level of expertise and business development skills are usually considered to be much more important.

SKILLS REQUIRED AND SKILLS DEVELOPED

Principals/Partners are expected to have significant and recognized expertise in the following skill areas:

- Client service and client relationship management
- Directing and organizing the team servicing the client
- Developing new client relationships
- Contributing to the marketing and branding of the firm
- Providing feedback and managing the performance of their team

While Principals/Partners are at the top of the career path for most firms, they continue to grow their skills in the following areas:

- Remaining a professional expert
- Becoming a better leader
- Mentoring and coaching other team members

MEASURES OF SUCCESS AND EXPECTATIONS

The Principal/Partner position is commonly measured by its results. Typical measures of performance for Principals/Partners include the following:

- Revenue responsibility: the *2017 InvestmentNews Compensation & Staffing Study* suggests that Principals/Partners have responsibility for a median of \$600,000 in revenue
- Client retention: every organization sets its own retention goals, but most firms look for client retention goals higher than 90 percent
- New revenue generated: the *2016 InvestmentNews Compensation & Staffing Study* suggests that Principals/Partners are expected to generate a median of \$100,000 or more in new revenue
- Number of clients delegated: to encourage Principals/Partners to leverage advisory team members and help them develop their careers, many firms will measure the number of clients delegated to other professionals
- Number of mentorships: firms often expect Principals/Partners to mentor a certain number of advisors
- Number of committees in which the Principal/Partner participated
- Achievement of goals set and agreed upon with the organization

COMPENSATION

There are two primary methods of compensation for Principals/Partners: salary-based and revenue-based.

1 Salary-based compensation

The majority of independent wealth management and investment advisory firms compensate Principals/Partners through a salary with bonuses complementing the pay package.

2 Revenue-based compensation

The majority of broker-dealer organizations and some smaller independent firms compensate Principals/Partners based on the revenue for which they are responsible.

Salary-based Compensation

For organizations that primarily utilize salaries as a compensation method, the salaries shown in Table 2.11 are medians. Note that median base salary plus median incentive salary does not necessarily equal median total compensation.

In reviewing the information, please note that compensation information changes rapidly throughout the profession and that the data included in this report may quickly become outdated.

TABLE 2.11: Median base salary and incentive salary for Principals/Partners

	BASE SALARY	INCENTIVE	TOTAL COMPENSATION
1st Quartile	\$150,000	\$20,000	\$185,000
Median	\$193,000	\$55,000	\$247,000
3rd Quartile	\$250,000	\$90,000	\$316,000

Source: 2017 InvestmentNews Adviser Compensation & Staffing Study

The Principal/Partner position by definition participates in the profits of the firm. However, it should be emphasized that shares of profit should be a reward for investing in the firm, not a compensation mechanism. The compensation of Principals/Partners is typically tied to their responsibilities and results. It is entirely possible and likely for a Principal/Partner to have a small share of the equity of the firm while making a very large contribution to the revenues and profits of the firm. Alternatively, it is also possible for a large shareholder to no longer be a large contributor to revenue.

Revenue-based Compensation

Revenue-based compensation “pays out” to Principals/Partners a percentage of the revenue they generate. This percentage varies based on the firm. According to *On Wall Street* magazine’s 2017 compensation survey, the compensation for a Principal/Partner ranges from 40 to 55 percent of the revenue for which they are responsible.⁹ This is similar to the Lead Advisor/Managing Director position.

A Principal/Partner with \$1,000,000 in revenue at a regional broker-dealer, which is consistent with minimum expectations for Principals/Partners, will be compensated between 50 and 55 percent of revenue. At that same level of revenue, a Principal/Partner at a traditional national firm will be compensated between 45 and 48 percent of the revenue.

In broker-dealer firms, “Team Principals” often receive a portion of the revenue generated by the other advisors on their teams. Such revenue share can come in the form of “splitting cases,” where two advisors or more receive a portion of the advisory fee. Some Principals/Partners in such teams may also receive an “override” on the production of Lead Advisors/Managing Directors on their teams. While “splits” are specific to a client (e.g., Advisor A and Advisor B only split revenues from that client), “overrides” apply to all clients (e.g., Advisor A receives a portion of all revenue generated by Advisor B). There is no industry research or guidance on the typical compensation arrangement for overrides. Branch Managers may provide guidance to advisors based on their experience.

Few independent firms use variable compensation for Principals/Partners since it creates a concern that the firm will fragment into “silos” — firms within the firm. Still, when such arrangements are used, independent firms typically pay out 30 to 35 percent of the revenue for which the Principal/Partner is responsible. This observation is based on the consulting experience of The Ensemble Practice. Unfortunately, there are no industry statistics to support it.

9 Andrew Welsch, “Best Pay for the \$400K Adviser.”

CRITERIA FOR PROMOTION TO PRINCIPAL/PARTNER

The Principal/Partner position is typically the top of the career path for most firms. While some Principals/Partners may pursue careers in management and seek positions such as CEO or Managing Partner, those positions are no longer on the advisory career path and have more to do with the executive management of the firm.

Moneta Trains Partners to Be Leaders

Moneta is a top 10 independent registered investment advisory firm with over 200 employees and 40 partners. Moneta has grown organically, excelling at training its professionals and developing their careers. In order to leverage and scale the training of professionals, the firm has organized Moneta University, a robust curriculum offered to professionals at every level.

A key component of Moneta U is the Partner-in-Training Program. This program is specifically targeted at professionals approaching the last step in their career path and who are about to become Principals/Partners in the firm. Classes emphasize and train the core competencies that Moneta expects from its Principals/Partners: technical knowledge, team leadership, business development, client relationship management and thinking like a steward of the firm.

In order to enroll in the Partner-in-Training Program, a professional has to be nominated by existing Principals/Partners. In addition to completing classes, nominees are mentored by a combination of firm Principals/Partners and outside experts. Upon successful completion of the program, the professionals are considered for “admission” to ownership in the firm.



CHAPTER 3

CAREER PATH IN PRACTICE- BUILDING RETAIL

Advisors in many financial planning organizations are expected to build “practices” that they manage and grow with the help of their firms. This “practice-building” model is typical for wirehouse, regional broker-dealer and independent contractor firms. Every advisor is responsible for attracting new clients and servicing those clients. The practice is then defined by the collection of clients the advisor has assembled and the care and services that are provided to those clients.

In practice-building organizations, the career of an advisor is in essence defined by the career-long effort to build an ever larger and more profitable practice. In such organizations, each practice is a sub-organization and has its own vision, strategy, business practices and staffing. Advisors spend the first few years of their careers preparing for the practice-building process. They then spend the rest of their careers on their practices.

AN OVERVIEW: THREE CAREER STAGES

In practice-building organizations, careers take three stages that overlap significantly with the stages described in the previous chapter.

1 Training stage

Future advisors spend two to four years of their careers acquiring the necessary technical skills, licenses and designations before embarking on the process of building a practice. The training stage corresponds well with the Analyst and Associate Advisor stages (rungs I and II) described in the previous chapter.

2 Practice-building stage

Advisors spend many years attracting clients and building a process for servicing those clients. This practice-building stage corresponds well to the Lead Advisor/Managing Director stage (rung IV) described in the previous chapter.

3 Team-building stage

Some advisors with large, mature practices also embark on the process of building a team of professionals that collectively service clients. This team-building stage corresponds well to the Principal/Partner stage (rung V) described in the previous chapter.

After completing the initial training stage of their careers, many advisors in practice-building organizations choose to join a team and continue their career within the team structure. While such careers vary from team to team, they mirror the career path described in the previous chapter, (i.e., a sequence from Service Advisor to Lead Advisor/Managing Director to Team Principal or Principal/Partner).

Note that the biggest difference between the career path proposed in the previous chapter and the career path in practice-building organizations is the Service Advisor step (rung III). This step is not available in many practice-building organizations, as advisors go directly from acquiring their technical skills to building a practice. Missing the Service Advisor step creates a challenge for many professionals because critical skills such as client relationship management and business development are acquired at this stage. These skills are best developed by working side-by-side with a seasoned professional, and it is difficult for new advisors to acquire the necessary knowledge without having the opportunity to do so.

Recognizing the difficulty that advisors have jumping directly from the training stage to the practice-building stage, many organizations pair trainees with teams of experienced advisors who are looking to build an Ensemble practice (i.e., a practice with multiple professionals). Such team careers allow for the gradual development of necessary skills. The tradeoff here is that as careers develop within an Ensemble practice, they do so within the team context and structure rather than resulting in independent practices.



FIGURE 3.1: Career path for financial advisors in practice-building organizations



FIGURE 3.2: Team career path for financial advisors in Ensemble practices

While the standard career path for financial advisors discussed in the previous chapter and the career path for advisors in practice-building organizations have significant overlap, the rest of this chapter will describe each stage of the practice-building career path in further detail.

Merrill Lynch Gives Advisors Ample Time to Develop Practices

Merrill Lynch has a long tradition of training professionals and continues to look for new ways for advisors to develop their practices. Advisors may join the firm in several ways: through the firm’s summer analyst program; from undergraduate and graduate programs; and as a second career. The firm welcomes advisors from a wide range of backgrounds and has built training curricula to accommodate advisors at various stages of development.

Merrill Lynch’s training programs are long enough to provide on-the-ground and hands-on skill building and education to help advisors build their practices. The program emphasizes business development and acquisition skills and is offered through both online and in-person sessions with extensive coaching from experienced advisors and branch leadership.

Many Merrill Lynch advisors also develop their practices within a team framework. A team structure allows advisors to receive support from experienced professionals in the service of their clients. The Practice Management Consulting Group within the firm helps identify and refine the roles and responsibilities within teams.

TRAINING STAGE

Training programs at practice-building organizations focus on developing the technical skills of the trainees and helping them prepare for building practices. The trainees work out of local offices of the firm and go through a combination of classroom-style instruction, distance learning and coaching from branch managers and specialists who focus on new advisor development.

The typical training program seeks to develop four cornerstone skills:

- Financial planning
- Business development
- Investment management
- Relationship management

Professionals who are new to the profession typically spend their first three months of training obtaining their licenses to practice. After completing the licensing process, they begin a cycle of internal education on financial planning and investment management tools and processes. These training programs also put an emphasis on teaching the technology tools used by the firm.

Many training programs assign an experienced advisor as a mentor to each trainee. This enables trainees to accelerate their learning and develop a trusted resource for career questions. It may also provide them with an introduction to the client and professional networks of their mentors. Many advisors subsequently join their mentors in team-based practices.

During the training period, new advisors receive a salary. This allows them to have guaranteed income and the corresponding ability to meet their personal income needs. The presence of a salary also allows the firm to spend more time training critical skills and recruit a more diverse group of future advisors. The compensation in the training stage is described in more detail in the next chapter.

Business development has always been the most difficult skill to learn in the financial planning profession. Firms teach this skill through a combination of training on marketing strategies and hands-on sales training through roleplaying.

The length of training programs varies across firms. While the typical training program lasts for two years, the range includes programs lasting anywhere from two to four years. Practice-building organizations recognize that it is difficult for new advisors to build a practice from scratch. As a result, many are increasing the length of the training programs that they offer and the corresponding period of salary-based compensation.

Increasingly, many advisors who graduate from training programs join existing teams or choose to work in one of the other divisions of the firm (e.g., divisions that service clients over the phone or remotely). Such careers closely follow the Service Advisor and Lead Advisor/Managing Director stages described in the previous chapter.

For other advisors, completing the training program means that it is time to launch their own practices and enter into the practice-building stage. This usually requires the completion of all training steps and a minimum number of clients. At times, firms may provide advisors with some of the clients needed for their new practices by reassigning clients who were working with advisors who recently retired or left the firm.

PRACTICE-BUILDING STAGE

Most financial advisory practices follow a cycle of evolution that gradually changes their size, income, resources and capabilities. While the role of advisor continues to consistently focus on adding new clients and servicing existing relationships, the change in size and complexity of the practice also creates some distinct changes in responsibility.

During the practice-building stage, advisors are compensated based on a percent of the revenue they generate (i.e., payout). This variable compensation provides lucrative rewards to those who are successful in building a practice. Unfortunately, it also creates a difficult initial period of building that practice until it reaches critical mass. Payout-based compensation models are described in more detail in the following chapter.

Northwestern Mutual Jumpstarts Financial Representative Careers with Extensive Early Career and Business Development Training

Northwestern Mutual, headquartered in Milwaukee, WI, recruits over 2,000 advisors annually and strives to provide new recruits with ample training and resources to support their early development. As a growth-orientated organization, the firm engages candidates early in the selection process to help them better understand their career and market potential.

Once an offer has been accepted, the firm partners with the new recruit on a multi-week transition process in preparation for their career in financial services. Early stages of that transition period focus on contracting, licensing, and understanding and developing a marketing plan. Later stages include formal training focused on many elements of becoming a successful financial representative including financial planning, product knowledge, and developing client acquisition skills.

When a new financial representative begins engaging with clients, it is typically in partnership with a senior advisor. This joint work is not only critical to the development of a new representative, but it is common to see them continue to do some level of joint work throughout their career as they engage clients with more complex financial scenarios. In addition to joint work, new financial representatives at Northwestern Mutual receive individual coaching three times per week, and group coaching and development monthly.

As the new financial representative continues to grow their business, they have career path options of transitioning into leadership and/or continuing to grow and specialize their practice. In addition, not every individual who starts as a financial representative remains on that career path. Some may choose to transition into more operational roles by joining an existing advisor's practice, while others may join either a network office or the home office to focus on financial planning, training and development, talent acquisition, marketing, etc.



TEAM-BUILDING STAGE

Many advisors also choose to add a team dimension to their practices. Some advisors join existing teams, drawn by the success and potential of Ensemble practices. While not every practice becomes a team, the financial planning profession is clearly witnessing a transformation of client service models toward team-based practices. According to a research report published by the Boston-based firm Cerrulli Associates, 89 percent of the largest practices in the profession (i.e., those with over \$500 million in AUM) are team-based.¹⁰

Team-based practices offer many advantages to advisors:

- Capacity: capture more opportunity than the limited capacity of one advisor
- Leverage: allow experienced advisors to leverage their time working with less experienced Service Advisors
- Training: utilize the Service Advisor position and allow developing professionals to learn while working closely with an experienced colleague
- Specialization: enable professionals to specialize in different aspects of the planning process
- Backup: provide advisors with backup when they are on vacation or need to be away from the practice
- Complexity: handle larger and more complex clients that may overwhelm a solo advisor
- Continuity: create a natural succession process that is smoother for both clients and the retiring advisor

¹⁰ Kenton Shirk, "High-Performing Advisor Teams," *Investments & Wealth Research*, no. 4 (2017), 2, [https://investmentsandwealth.org/getmedia/c005b352-ff7a-4cae-8148-225f9b255a88/2017-Q4-InvestmentsWealthResearch-\(1\).pdf](https://investmentsandwealth.org/getmedia/c005b352-ff7a-4cae-8148-225f9b255a88/2017-Q4-InvestmentsWealthResearch-(1).pdf).

The appeal of the team-based structure causes some advisors in the mature stages of their practices to embark on another step in their career: building a team. The creation of the team adds management and leadership responsibilities to the financial advisor job description. Figure 3.3 illustrates a typical organizational structure found in team-based practices.

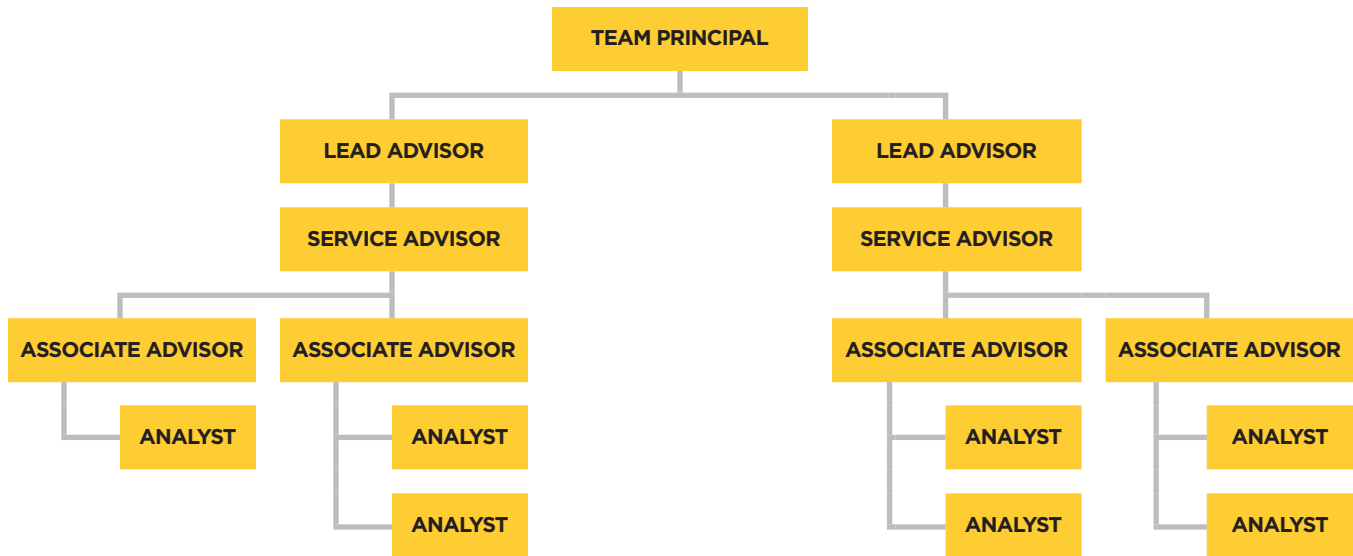


FIGURE 3.3: Optimal organizational structure of a team-based practice

The Team Principal career stage mirrors the Principal/Partner stage (rung V) of the standard job description. Principal/Partner-level responsibilities are well documented in the previous chapter, and for all intents and purposes, the role of Team Principals in practice-building organizations and the role of Principals/Partners in independent firms is nearly identical. Team Principals spend their time developing new business, servicing existing clients, managing the team and developing other professionals.

When successfully deployed, the combination of a career path and a team-based model accomplishes the following goals:

- Offers a natural leadership and management model for managing client services, as well as organizational effectiveness
- Leverages the business development skills of the most experienced professionals
- Creates client service leverage, maximizing the capacity and time of the team members who are highly compensated
- Develops a natural support “ecosystem” of peers, coaches and mentors that allows professionals to thrive

The benefits of team structures have been recognized by many practice-building organizations, and the development of teams is supported by their practice management groups.



CHAPTER 4

COMPENSATION FOR FINANCIAL PLANNERS

The financial advisory profession is very diverse, comprising organizations of many different sizes and business models. These organizations compensate their financial advisors using a varied set of compensation methods and tools. However, the skills of a financial planner are very portable, which means advisors can change firms and resume their career paths without significant interruption. Consequently, firms from all business models in the profession compete with each other in the marketplace for the skills of financial advisors. This chapter will review the compensation framework for financial advisors.

Firms take into account both the market and their own internal logic when setting the compensation for a position. This internal logic is often called a firm's "compensation philosophy." A compensation philosophy defines the way in which a company makes compensation decisions.

The compensation philosophy is a succinct description of how compensation works in a firm, including the principles that govern compensation decisions. It is constructed as a statement, similar to the strategy or value proposition of a firm. In fact, it should probably relate to the firm's strategy. While it may be somewhat of an abstract statement, it should be clear enough to be applied in practical situations without ambiguity and embody the following best practice characteristics:

- Logical, with a logic that is understood by employees
- Affordable to the firm
- Consistent with the organizational hierarchy and career path
- Creates a sense of internal equity (sense of fairness)
- In line with the culture of the firm

THE ROLE OF BUSINESS DEVELOPMENT AND CLIENT OWNERSHIP

A pivotal point in the development of career paths and compensation for financial advisors is the responsibility for developing new client relationships and the nature of those resulting relationships. Organizations that primarily rely on the branding, marketing and business development efforts of the firm to attract new client relationships tend to utilize salary-based compensation systems, where advisory pay is fixed and guaranteed. Conversely, organizations that rely primarily on the efforts of advisors to attract new clients and connect with prospective clients tend to use a variable-based compensation approach, where advisors are paid a percentage of the revenue they generate.

The choice between variable and fixed pay for advisors is also strongly influenced by the culture and history of the organization. In turn, the elected compensation system has a strong reinforcing effect on the culture. In general terms, variable compensation tends to encourage business development efforts, growth activities, high levels of productivity and ambitious practice expansion. Fixed compensation, on the other hand, tends to encourage higher levels of collaboration, teamwork and firm-level initiatives. Of course, these are only generalizations. Professionals and firms are also influenced by many other factors, including their strategy and history.

Payout compensation, where professionals are paid a percentage of the revenue for which they are responsible, tends to create a sense of ownership over revenue. Since advisors are paid a percentage of revenue, they have a significant incentive to retain and protect the revenue they manage. They see revenue as “belonging” to them, as it is their primary source of income.

Historically, firms that use variable compensation have been vulnerable to professionals leaving and bringing their clients with them to other firms. While this migration of professionals and clients is typically discouraged or even prohibited by employment contracts, it is a regular feature of the profession as evidenced by the presence of many recruiting firms and high recruiting bonuses for advisors changing firms.

Payout compensation methods create an open-ended compensation spectrum that rewards the most successful advisors at a very high level. The payout (i.e., the percentage of revenue paid to the advisor) for a successful advisor can be as high as 50 percent of the revenue generated, meaning that a successful advisor who controls \$2 million or more in client revenue can receive \$1 million or more in compensation from the firm. Such levels of compensation are typically unavailable to salaried advisors, regardless of the revenue they oversee.

In salary-based systems, advisors may become firm owners and share in profitability as the firm grows in value. In such systems, advisors may generate significant additional income from the profits of the firm. They may also create a lot of wealth from the appreciation of their equity in the firm over the course of their careers. While ownership is not a compensatory decision, it still influences the decision-making process of highly productive advisors when they are choosing where to practice.

THE COMPONENTS OF COMPENSATION

A well-rounded compensation system consists of multiple components. The foundation of the compensation system is *base pay*, or the compensation professionals receive for fulfilling their job responsibilities. The second component is *incentive compensation*, also known as bonuses. Incentive compensation can be short term (the current year) or long term. Incentives compensate for individual or team success, demonstrated effort above and beyond the job description and the completion of specific activities desired by the firm, such as business development.

Finally, a compensation plan usually contains *benefits* such as healthcare, retirement and other forms of support for the career and wellness of the professional.

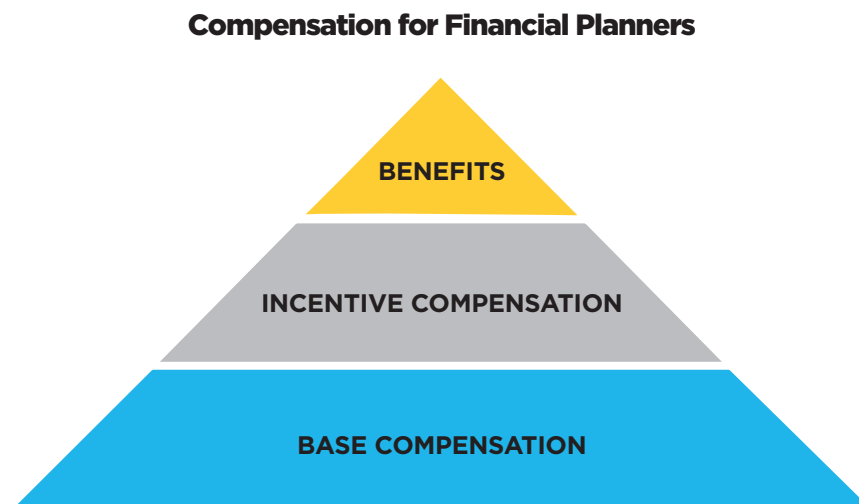


FIGURE 4.1: Compensation system components for financial advisors

Note that base compensation can be both variable and fixed. For example, the payout systems used by many organizations represent base compensation paid for the primary responsibilities of the advisor. Still, the payout compensation is variable in nature. Salary is the fixed base compensation method encountered in most organizations. It is very rare for advisory organizations to use wages (i.e., hourly pay) as a form of payment to financial advisors.

Most advisory organizations pay some form of incentive compensation to their advisors. The use of incentive compensation can vary widely based on the firm's compensation system, strategy and objectives. As a general rule, advisors with higher levels of experience and responsibility are more likely to receive a larger percentage of their compensation through incentives.

Figure 4.2 provides a sense of the magnitude of incentive compensation used for different positions in the career path. The percentages show the median incentive compensation paid as a percentage of the median total compensation for each position. Note that the use of incentive compensation varies significantly from firm to firm, and some firms choose not to use incentive compensation at all.¹¹

¹¹ InvestmentNews Research, 2017 Compensation & Staffing Study (see chapter 2, n. 3).

Median Incentive Compensation for Career Path Positions as Percentage of Median Total Compensation

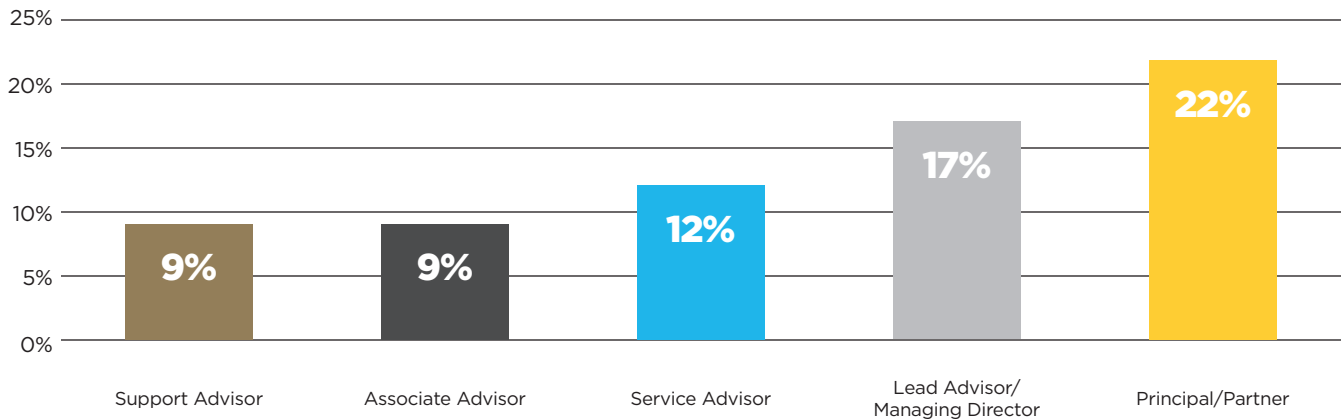


FIGURE 4.2: Median incentive compensation for career path positions

Benefits are an important part of a well-rounded compensation plan, and the vast majority of financial advisory organizations offer a number of retirement and wellness benefits to their advisors.

A survey of 80 advisory organizations performed by The Ensemble Practice in 2018 reveals that 96 percent of all advisory firms offer healthcare benefits to their employees. On the median, these firms cover 80 percent of employee healthcare premiums and 30 percent of family premiums. Firms also provide between 13 and 19 vacation days to their employees depending on tenure. This is combined with a median of five sick days and two personal days each year. Most firms use a PTO policy where all paid time off is combined. The most common PTO policy offers employees between 20 and 25 days off, depending on tenure.

Based on the same survey, 98 percent of advisory firms offer retirement benefits with various matching and profit-sharing features.

Many organizations also use *deferred compensation* as a method of providing incentive compensation and tax benefits to advisors. These deferred compensation plans are a more typical feature of wirehouse and regional brokerage firms and are usually paired with a payout-based compensation plan. The “deferred” nature of the compensation refers to the fact that the income is not paid until the following year and is therefore not taxable until paid. This allows a deferral of the taxes to the advisor and creates an embedded retention tool, since advisors will forfeit the deferred income if they leave before the income is paid.

Deferred income plans vary significantly from one organization to another. An examination of the incentive compensation plans published on the advisor recruiting site AdvisorHub.com shows that relatively few plans (four out of the published 37 compensation plans) offer deferred income. Those that do offer the option to advisors have a deferred income ranging from 2 to 9 percent of the revenue generated.¹²

Finally, some organizations offer discretionary marketing budgets or travel and education reimbursements to their advisors. Education reimbursement policies range from full reimbursement for the costs of obtaining designations (such as CFP® certification or a CFA) to providing a reimbursement as a percentage of the revenue generated by the advisor. Salary-based systems typically reimburse advisors for all educational costs, including professional or leadership development classes. Payout systems, on the other hand, tend to define educational reimbursements as a percentage of revenue (and typically range from 0.5 to 1.5 percent of the revenue generated).

12 See <https://advisorhub.com/deals-and-comps>.

Raymond James Gives New Professionals Time to Learn

Raymond James is one of the largest financial advisory organizations in the country with over 7,800 financial advisors. The firm offers several pathways for new advisors to develop their careers and either build practices or join one of the existing offices and teams.

Recognizing that the accumulation of experience and expertise takes time and patience from both the new professional and the firm, Raymond James has a training program that offers trainees as much as five years of fixed compensation (i.e., a salary). The training program is organized around the four cornerstone skills of financial planning, investment management, business development and relationship management. Salary-based compensation allows for a more diverse group of professionals to explore careers as financial advisors and helps address the high turnover in the early stages of career development, an issue with which all practice-building organizations struggle.

SALARY-BASED COMPENSATION METHOD

Salaries are the predominant method of advisor compensation in independent wealth management firms and many of the retail financial planning organizations. Salaries are also the primary method of compensation for Analysts, Associate Advisors and Service Advisors across all business models.

Salaries in many firms are determined by the position and career progression of the advisor. They are also driven by the market and the individual philosophy of every firm. Different salary levels are reinforced by various industry surveys that document compensation for financial planners in different positions.

The most commonly used resources for salary-based compensation benchmarking include the following:

- *InvestmentNews Adviser Compensation & Staffing Study*, sponsored by Pershing LLC
- Charles Schwab's *RIA Benchmarking Study*
- Fidelity *RIA Benchmarking Study*
- FPA's *Trends in Adviser Compensation and Benefits*
- *FA Insight Study of Advisory Firms: People and Pay*

Figure 4.3 summarizes the results of the *InvestmentNews Compensation & Staffing Study*. This survey compiles data from firms of various sizes across the country and is representative of the pay practices of independent advisory firms, (i.e., those owned and managed by the advisors who practice). The figure shows total compensation (comprising all salaries and incentives paid) for each position in the career path.

The *InvestmentNews* survey reports salary and bonus information separately. This information is included in the position descriptions found in Chapter 2 of this guide.

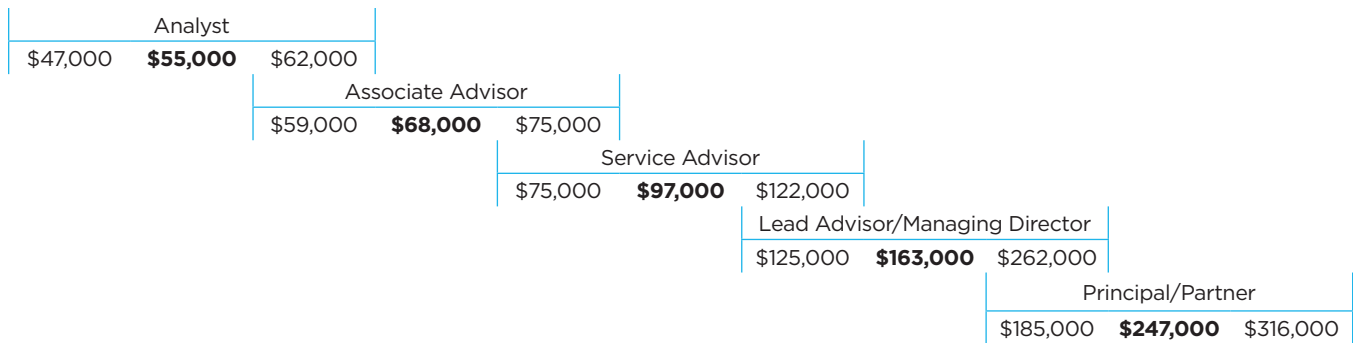


FIGURE 4.3: Total cash compensation by position in salary-based systems

The three numbers for each position represent the first quartile (defined as the point separating the bottom 25 percent of compensation from the rest of the sample), the median (defined as the point in the middle of the sample data) and the third quartile (defined as the point separating the top 25 percent from the rest of the data).

For example, the median for Lead Advisor/Managing Director total compensation is \$163,000, meaning that half of the reporting Lead Advisors/Managing Directors are paid less than \$163,000 and half are paid more. The first quartile is \$125,000, meaning that 25 percent of reporting Lead Advisors/Managing Directors are paid less than \$125,000 and 75 percent are paid more. The third quartile is \$262,000, meaning that 25 percent of reporting Lead Advisors/Managing Directors are paid more than \$262,000 and 75 percent are paid less.

As you can see, at times the compensation ranges for a position may overlap the position above. This is normal for a survey, as different organizations use different ranges of compensation. This is also not unlikely within a single organization. For example, it is possible for a highly productive and experienced Service Advisor to have higher compensation than a newly promoted Lead Advisor/Managing Director.

Incentive Compensation in Salary-Based Method

Advisory organizations offer a variety of incentive compensation plans that aim to share the success of the firm and promote certain types of behavior among advisors. Incentive compensation plans are very common. Eighty percent of advisors who are in a salary-based system also receive incentive compensation.¹³ Incentive compensation plans typically contain two components with an optional third component for large, team-based firms.

1 Individual component

This portion of the incentive is paid based on the individual achievement of the advisor. Individual achievement can be measured with a variety of numeric goals: revenue managed, assets managed, client retention, client net promoter scores, etc. Many organizations also use evaluation scores such as performance rankings and ratings and 360 reviews. The ability to meet agreed-upon goals is also often a component of incentive pay. The individual component of compensation can be determined as a percentage of the advisor's salary, or it can be drawn from an incentive compensation pool based on the results of the firm.

2 Firm component

Firms also frequently pay their advisory teams a portion of profits or revenues. The firm component is typically driven by a firm-level revenue or profit goal that has to be achieved. This goal may be directly tied to the bonus. For example, a firm may pay 15 percent of its profits above the target profit level of \$5 million. Usually such firm bonuses are allocated out of a pool in which all eligible

¹³ InvestmentNews Research, 2017 Compensation & Staffing Study page 82.

positions participate. The share of the pool can be determined by the position of the advisor, his or her base compensation relative to other employees or a combination of individual performance evaluations and relative position.

3 Team component

In very large firms, there may be a component of incentive compensation determined by the performance of the advisor's team. In such cases, advisors may be paid a portion of the revenues of the team or a percentage of the team revenues above a target. The metrics and calculations in such cases resemble the firm incentives but are funded by team-level revenues rather than firm-level revenues.

Business Development Incentives in Salary-Based Method

It is also common in salary-based systems for firms to have incentive compensation driven by the business development results of individual advisors. Such incentives can apply to all levels of the career path, though the focus is on the Lead Advisor/Managing Director and Principal/Partner positions. Business development incentives emphasize the importance of growth and reward advisors who are most active in marketing and bringing new clients to the firm.

Business development incentives are usually formulated as a percentage of the new revenue generated from new clients. According to research conducted by The Ensemble Practice, a typical plan may pay 20 to 30 percent of the first-year revenue generated by a client to the advisor who attracted that client. Some firms may also pay a smaller percentage of the second-year revenue, usually between 10 and 15 percent. This is done to recognize that some assets do not transfer quickly when a client joins a new firm.

Some firms may also pay an incentive on new revenue by existing clients. Such incentives are often debated because they can be influenced by market appreciation. They may also create competition for clients who are likely to add more assets through the sale of a business or other liquidity event.

Note that while incentive compensation systems are widely used in salary-based firms, they still play a secondary role to the primary method of a guaranteed salary. The overall philosophy of salary-based methods is to guarantee the majority of the income of an advisor in an effort to make a strong statement about firm ownership of client relationships and team-driven service. Incentives aim to encourage behavior and share success, but they are not intended to significantly change the compensation outcome. The opposite is true for payout compensation methods, discussed in the following section.

PAYOUT COMPENSATION METHOD (PERCENTAGE OF REVENUE)

More than half of CFP® professionals work in organizations where the primary compensation method for advisors is a percentage of generated revenue, or the payout method.¹⁴ In such organizations, each client account is associated with an advisor, and a portion of the fee or commission generated from providing the client with services is paid to that advisor.

The payout method is very popular in national brand organizations (i.e., wirehouses), regional broker-dealers and independent contractor broker-dealers. It is also used by bank-affiliated organizations and some independent RIAs. The payout system emphasizes productivity and building a sizeable practice. Advisors who are successful in building such practices enjoy very high levels of income that are likely not attainable under a salary-based structure.

¹⁴ Alois Pirker and Sophie Louvel Schmitt, *Building a Wealth Management Practice: Measuring CFP® Professionals' Contribution* (Boston: Aite Group, 2016), <https://www.cfp.net/docs/default-source/news-events---research-facts-figures/2016-cfpboard-aite-white-paper.pdf>.

The payout system presents difficulties for developing advisors, as it results in levels of income that are highly variable and likely much lower than the alternative salary. The payout system may also make it more difficult for advisors to collaborate and share client relationships. Payouts tend to create a sense of “ownership” over client relationships by the advisor rather than the firm. Still, the system is widely used by organizations that focus on building and supporting advisory practices.

Levels of compensation in the payout method are expressed as a percentage of the revenue generated, and this percentage changes with fluctuations in the revenue over which an advisor is responsible (also called “production”). Typically, the higher the revenue generated, the higher the percentage of the revenue that is paid out. Once again, this favors well-established advisors with sizeable practices and puts smaller practices and less experienced advisors at a disadvantage.

Table 4.1 presents an average of the payouts (i.e., percentages of revenue) paid to practices of different sizes by the four largest practice-building organizations. Such tables with levels of revenue (production) and their associated payouts are often called grids. This composite grid is meant to provide only general guidance on the levels of compensation and dynamics of the payout system rather than define compensation at any specific level.

TABLE 4.1: Average payout by practice size of the four largest practice-building organizations

REVENUE	PAYOUT
\$500,000	41%
\$750,000	42%
\$1,000,000	44%
\$2,000,000	46%
\$5,000,000	50%

While the payout grids of different organizations are not typically published, they are highly visible from recruiters, recruiting websites and various surveys. The illustration grid above was composed using grids published on the recruiting site AdvisorHub.com. Similar information is also available from surveys such as the one conducted annually by *On Wall Street* magazine.

Payout grids vary significantly from one organization to another, and the number of payout levels also varies widely. Some organizations use “prospective” grids, which pay different marginal rates at each level (similar to tax brackets), rather than “retroactive” grids that pay the same percentage on the entire amount of revenue.

Payout systems typically have specific requirements for the minimum production required from advisors in order to receive full compensation and remain under the employment or contract of the organization. Such minimums vary widely across the profession, with many of the large, branded organizations requiring minimums of \$300,000 or more.¹⁵ Independent contractor broker-dealers have average stated minimums of \$100,000 or more.¹⁶

¹⁵ Diamond Consultants, *The Landscape of the Wealth Management Industry* (Morristown, NJ: Diamond Consultants, 2017), 4, <https://www.diamond-consultants.com/wp-content/uploads/2017/04/DiamondConsultants-IndustryLandscape-2017-9.pdf>.

¹⁶ *InvestmentNews* Broker-Dealer Data Center, <https://data.investmentnews.com/broker-dealer-data>.

Firms also have specific requirements for the minimum size of client accounts for which advisors receive compensation. While these minimums vary significantly from one firm to another, they tend to be around \$250,000 in assets under management for national brands and \$50,000 for independent contractor firms.¹⁷

It is common practice for organizations to change their payouts each year, modifying their grids and various elements of compensation.

Incentive Compensation in Payout Method

Though by definition payouts represent variable compensation, providing a significant incentive for advisors to increase the size of their practices, firms using the payout method also provide additional incentive compensation expressed as a percentage of generated revenue. This additional payout is usually focused on encouraging desirable characteristics in advisory practices. Typical examples of these incentives include the following:

1 Length of practice (tenure) bonuses

Tenure bonuses can range from an additional payout of 1 percent to as much as 10 percent for advisors who have been with the firm for more than 20 years.

2 Growth bonuses

Advisors can earn a growth bonus for growing faster than the target defined by the firm. This growth target is usually measured in net new assets (net of market), and advisors can earn up to 5 percent in additional payout if they exceed different levels of the target.

3 Best practices adoption

Organizations can define a series of best practice measures such as the creation of marketing plans, the adoption of planning strategies and the implementation of succession plans. Such composite plans are less common but may contribute up to 5 percent in additional payout to advisors who meet the criteria.

Overall, the payout structure is designed for advisors who are successful in building sizeable personal or team practices and working with their firms to maintain and grow those practices. As previously mentioned, payouts create an issue for younger and less experienced advisors who are not yet ready to attract large groups of clients and build sizeable practices. This is why practice-building organizations usually use salaries in their advisor-training programs.

Training Programs in Payout Method

Training programs in practice-building organizations are meant to provide less experienced advisors the opportunity to learn the business and launch their own practices or connect with an experienced advisor or team. During the length of the program, the trainees are paid a salary, allowing them to focus on learning and skill acquisition before they need to generate new revenue.

The length of training varies across firms, with programs ranging from two to five years in duration. Each program has its own milestones that are typically centered around advisors achieving the following goals:

- Obtaining the necessary licenses to practice as an advisor
- Passing exams for desired designations, including CFP® certification

¹⁷ Diamond Consultants, *The Landscape*.

- Completing internal competency courses, including courses focused on the use of technology, planning techniques and business development
- Completing mentoring programs
- Tiered levels of new clients and new revenue generated

The average compensation to trainees in the various programs ranges from \$32,000 to \$80,000 depending on the office location and the prior experience of the professional.¹⁸ The length of the programs and the level of compensation varies significantly from firm to firm. In general, firms that create independent contractor relationships have shorter programs with lower compensation. Firms that offer employment contracts to advisors (i.e., national brands) have longer programs and higher levels of compensation.

Revenue generated during the program is paid out at a lower payout rate and added to the advisor's salary. In many programs, the salary may also gradually decrease or phase out in the later years with the intention that the revenue generated by the advisor will replace the salary amount.

Incentive compensation in training programs is also available, with the average incentives ranging from \$2,000 to \$12,000 in additional compensation. Incentives are typically tied to completion of educational milestones and the generation of new revenue.

Upon graduation from the training programs, advisors join the regular pay structure of their firms as described above.

Team Compensation in Payout Method

While payout grids are designed to compensate a practice where one advisor works with a group of clients, many advisors are teaming up to create Ensemble practices. Such team structures are successful in all business models. Boston-based research firm Cerulli Associates indicates that as many as 57 percent of all practices in the profession involve more than one advisor.¹⁹ As many as 89 percent of practices with more than \$500 million in AUM are estimated to be Ensembles.

It is a common practice for Ensemble firms to pool their revenue for compensation purposes and then establish their own internal compensation systems. For example, three advisors may form a team and, depending on the firm, combine their revenue (some firms allow for team grids) or simply put all their business in the name of one of the advisors. The team can then work with a number of Analysts, Associate Advisors and Service Advisors and compensate them with salaries in a manner similar to the salary compensation method previously described in this chapter and the career paths described in Chapter 2.

Compensation methods within teams are usually determined by the Team Leaders (i.e., Team Principals). It is not uncommon to see teams create their own career paths and corresponding salary-based structures.

Some teams may also use *revenue splits* to manage the compensation of lower-rung professionals. In such a system, Service Advisors receive a percentage of the client relationships they support. Unfortunately, no systematically gathered data is available to summarize this compensation method. In the consulting experience of The Ensemble Practice, such arrangements tend to pay between 8 and 15 percent of the revenue to Service Advisors, but these numbers should not be viewed as anything other than an illustration of a possibility.

¹⁸ Based on data from glassdoor.com for the 10 largest recruiting programs.

¹⁹ Shirk, "High-Performing Advisor Teams" (see chapter 3, n. 10).

COMPENSATION'S ROLE IN CREATING DIVERSITY

Compensation and compensation methods have a very direct relationship to the ability of an organization to attract, develop and retain a diverse group of advisors. Simply put, a compensation system that only pays a percentage of revenue to the advisor generating that revenue makes it very difficult for inexperienced advisors to join the firm.

In the absence of guaranteed income, inexperienced advisors need to rely on external support to meet their life needs. This means that the only professionals who can embark on such a career are those who have already accumulated significant savings (e.g., career switchers) or those who have families who can support them during the training period. This tends to discourage candidates who are young and inexperienced, and also those who come from underprivileged backgrounds.

What is more, the early stages of building a practice are often a time when professionals reach out to their personal networks, (e.g., family, friends and alumni from the same educational programs). Professionals who join the advisory profession from backgrounds that have surrounded them with attractive prospective clients have an advantage over professionals from backgrounds where financial advice is less prevalent and available.

Conversely, the presence of guaranteed compensation in the form of a salary allows less experienced professionals to join the firm. It also gives opportunities to those who are coming from less privileged backgrounds to develop the necessary networks of prospective clients and centers of influence. Training programs with salary compensation allow organizations to attract a more diverse group of advisors.

The same is also true for incentive compensation: the more pay is at risk, the less attractive the compensation model is to candidates from more diverse backgrounds. If we consider Maslow's hierarchy of needs, physiological (e.g., food and shelter) and safety needs are the first that every person seeks to address.²⁰ Correspondingly, a professional who is still focused on paying for basic necessities such as rent or mortgage, utilities, food and medical costs is not in a position to risk compensation in order to achieve higher levels of income or to build status in the organization.

As a generalization, professionals who are not yet Lead Advisors/Managing Directors are not in a good position to risk compensation. They tend to avoid variable compensation methods or compensation programs that have a high variable component. They simply cannot accept the tradeoffs between basic needs and upside potential. Such tradeoffs are only amenable to young professionals who have a strong safety net by virtue of family income or other sources of support.

Finally, it is well-documented that millennial professionals are significantly less willing to accept commissions as a form of compensation than previous generations have been.²¹ In this context, "commission" means any variable compensation method. Millennials appear to want to avoid any kind of "sales" job. A Harvard Business School study found that employers spent 41 days filling a technical sales job compared to just 33 for a technical job with the same skills but no sales requirement.²² The very nature of variable compensation tends to emphasize the sales aspect of the job and creates a possible aversion among younger professionals.

20 A. H. Maslow, "A Theory of Human Motivation," *Psychological Review* 50, no. 4 (1943), 370-396, doi: 10.1037/h0054346.

21 Lauren Weber, "Why It's So Hard to Fill Sales Jobs," *The Wall Street Journal* (February 6, 2015), <https://www.wsj.com/articles/why-its-so-hard-to-fill-sales-jobs-1423002730>.

22 Anne Fisher, "Young Workers Don't Want Sales Jobs. How to Convince Them Otherwise," *Fortune* (December 17, 2015), <http://fortune.com/2015/12/17/millennials-sales-jobs-recruiting-gen-z>.

To create diversity in their advisory teams, organizations need to increase the amount of fixed compensation available to professionals at every level. The ability to earn fixed and guaranteed compensation allows for the inclusion of candidates who are not able to rely on external resources and who need more time to develop thriving practices. In return, organizations will gain access to many talented professionals who could be future stars if given the time and resources to develop.

In addition to increasing fixed compensation to create diversity, organizations can also increase team-oriented incentive compensation vis-à-vis individual incentive goals. In a survey, 88 percent of millennials stated that they prefer a collaborative work environment to one driven by internal competition.²³ This goes strongly against individualist compensation methods that reward top performers, publish the levels of production of different advisors and create rewards for those who outperform the averages. It appears that millennials would prefer to see more team-based goals and more collaborative practice-building than the sales contests that have driven some of the compensation systems of the past.

Compensation is not the only factor that attracts and retains talented professionals. Young professionals also look for opportunities to find a sense or purpose and a mission they can subscribe to.

Additionally, millennials appear to prioritize job flexibility and work conditions over pay.²⁴ In designing compensation schedules, firms may find that their youngest advisors would prefer to have more flexible hours, better work-life balance and more learning and mentorship opportunities rather than the chance to earn the highest pay. Indeed, many organizations already recognize this fact and choose to emphasize the team aspect of the firm over the money aspect in recruitment efforts.

The inclusion of younger professionals from diverse backgrounds will likely leave a deep mark on the compensation plans used by the financial advisory profession. Organizations that offer more fixed income and collaborative career paths will have an advantage in recruiting top young talent. As younger professionals are recruited into the industry, the trend toward deemphasizing the role of highly individualistic, “sales-driven” incentive compensation in favor of models that emphasize collaboration and client service is likely to increase.

²³ Angela McDonald, “8 Statistics You Have to Know about Hiring and Working with Millennials,” Manilarecruitment.com (March 2, 2016), <https://manilarecruitment.com/manila-recruitment-articles-advice/statistics-about-hiring-working-with-millennials>.

²⁴ McDonald, “8 Statistics.”

APPENDIX

TABLE A1: One-page career path for financial advisors

	ANALYST	ASSOCIATE ADVISOR	SERVICE ADVISOR	LEAD ADVISOR/ MANAGING DIR.	PRINCIPAL/ PARTNER
Titles	Analyst, Consultant, Support Advisor, Senior Analyst	Associate Advisor, Paraplanner, Senior Associate, Associate, Consultant and Associate Financial Planner	Service Advisor, Associate Wealth Manager, Associate Investment Advisor, Investment Advisor, Advisor, Financial Advisor, Financial Planner, Planner and Director	Lead Advisor, Managing Director, Senior Advisor	Principal, Partner
Client Responsibilities	Gather and maintain client data Enter client information into various systems Assist the Operations and Investment Groups with client onboarding Answer routine client questions and service requests	Draft financial plans Perform asset allocation analysis Create custom analyses of financial decisions Prepare materials for client meetings Perform research of investments Answer routine client questions and service requests	Draft and deliver financial plans for review Implement financial plans under supervision of Lead Advisor/ Managing Director Work with Investment Group on financial plan implementation Participate in client meetings Take the lead on answering routine client questions	Manage client relationships, identifying and meeting client needs Develop and present financial plans to clients Oversee the implementation of financial plans	Manage premier client relationships (i.e., the most complex and largest in size) as Lead Advisor/ Managing Director Consult with Lead Advisors/ Managing Directors on complex cases
Team Responsibilities	Be a great teammate	Train Analysts on the process, tools and methodology used by the team	Assign projects to Support and Associate Advisors and supervise quality and timeliness	Lead a team and manage the responsibilities and performance within the team	Manage a team or potentially multiple teams
Growth Responsibilities	Support Lead Advisors/ Managing Directors and Principals/ Partners by creating presentations and materials for business development meetings	Support Lead Advisors/ Managing Directors and Principals/ Partners Attend business development meetings and take responsibility for follow-up tasks	Attend and contribute to business development meetings Support marketing and business development efforts	Attract new clients Elicit referrals from existing clients Develop personal marketing plan Develop niche or specialty market	Attract new clients Have robust business network Lead strategy for growth in niche or specialty market Mentor and train others
Degrees and Designations	Bachelor's degree	Bachelor's degree	Bachelor's degree CFP® certification	Bachelor's degree CFP® certification	Bachelor's degree CFP® certification
Typical Experience	Zero to three years	Two to five years (median of five years)	Three to seven years (median of nine years)	Five to 10 years (median of 17 years)	Seven years or more (median of 20 years)
Compensation Ranges	Between \$47,000 and \$62,000 with a median of \$55,000	Between \$59,000 and \$75,000 with a median of \$68,000	Between \$75,000 and \$122,000 with a median of \$97,000	Between \$125,000 and \$262,000 with a median of \$163,000	Between \$185,000 and \$316,000 with a median of \$247,000

PARTICIPATING FIRMS AND PROFESSIONALS

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ABOUT THE RESEARCH

The CFP Board Center for Financial Planning commissioned The Ensemble Practice LLC to conduct research that captures the experiences and best practices of financial services firms. Thirty firms of all sizes and business models that employ financial advisors were interviewed. The research also examined data from *InvestmentNews* magazine's *2017 Adviser Compensation & Staffing Study* and *2018 Study of Pricing & Profitability*, capturing the compensation and business practices of nearly 400 firms.

ABOUT THE RESEARCHER

The Ensemble Practice LLC is a prominent business consulting firm for the financial advisory industry. It is committed to helping independent financial advisers create multi-professional ensemble firms with strong organic growth and sustainable profitability. The firm also hosts the G2 Leadership Institute — a training program for the future leaders of advisory firms. The firm is founded by Philip Palaveev, a highly regarded industry expert, thought leader and author of the book *The Ensemble Practice*.

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