



The Story Behind the Data: Are Associate Advisors Getting Stiffed?

by Michael Thrasher for RIAIntel

Profit margins, revenues and assets under management are up at RIAs, to the benefit of everyone except associate financial advisors.

The operating profit margin for the typical RIA was 20.9% in 2018, up more than one percentage point from the previous year. Median assets and revenues are expected to grow 13.5% and 9.1%, respectively, in 2019, according to a TD Ameritrade Institutional FA Insight study released today.

Business is good and, in turn, pay has largely increased at RIAs. Owners' income rose 3.6% to a median of \$633,000 in 2018 – the highest since 2014. Meanwhile, lead advisor pay rose 12.5% and operations managers are making 8% more over the last two years, according to the study.

But not everyone has gotten a raise. Associate advisor compensation, after steadily increasing for years, is down 8% over the same period.

The drop in associate advisor pay is counterintuitive given the tight labor market. However, observers say it's not truly indicative of what is happening in the industry.

"There is zero evidence of compensation going down. The results, I'm sure, are accurate relative to the cohort. But we're doing a dozen or so compensation projects every year and have no evidence of it going down. In fact, the opposite," John Furey, the founder and managing partner of Advisor Growth Strategies, said of associate advisors.

Most RIAs that hire Furey's company have at least \$300 million in assets under management and enough employees and complexity to justify working with the consulting firm. There are plenty of RIAs below that threshold who might be hiring younger, less experienced associate advisors, dragging down the median compensation, he said.

The FA Insight study supports that. The experience level for associate advisors has dropped from eight years in 2017 to just six years in 2019.

A drop in median pay is not the same as a pay cut, said Vanessa Oligino, the Director of RIA Practice Management at TD Ameritrade Institutional. Associates are simply getting younger, have less experience and aren't in a position to demand higher pay.

Even though proper succession planning by RIAs has been woeful, some firms might be choosing to hire advisors earlier in their careers in hopes of developing a new generation of talent to lead the firm in the future.

FA Insight found 64% of RIAs anticipate an internal successor will take over a firm and ownership of RIAs is already expanding. One in four full-time employees already have some

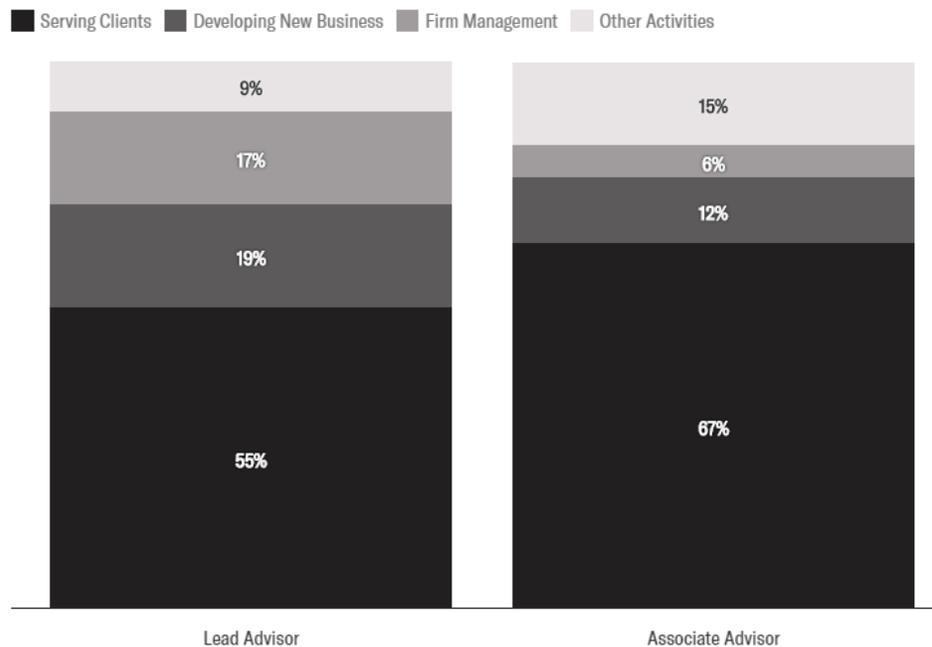
stake in their firm and RIAs are adding new owners at twice the rate they were in 2015, according to FA Insight.

An influx in the number of RIA owners, or employees with compensation tied to the firm's profitability, can muddy year-over-year compensation data, said Yosef Colish, a managing director at Leah Yosef International, an executive recruiting and consulting firm for RIAs and family offices.

Over time, those changes smooth out. Compensation for all RIA employees has been steadily increasing for more than 10 years and continues to rise, Colish said.

The disparity between lead and associate advisor pay in the FA Insight study might still seem jolting considering how they allocate their time. The two positions dedicate a similar number of hours to servicing clients and developing new business.

Advisor Average Time Allocation



Source: TD Ameritrade FA Insight

A story behind the data explains the results. Lead advisors are capable of handling clients' more complex needs and bring in wealthier prospects, ultimately delivering more revenue to their RIA, Oligino said. For that, they are rewarded accordingly. The median total compensation across all revenue-generating employees in 2019 is \$175,000, more than three times non-revenue-generating.

TD Ameritrade's 2019 FA Insight Study of Advisory Firms: People and Pay polled nearly 2,000 RIAs and the report included findings from 405 firms that fully completed its survey. Revenue at participating firms ranged from less than \$150,000 to more than \$8 million.