



# Compensating Staff to Achieve Results

By Reginald A. T. Armstrong, CPWA®

**H**ow do you compensate your staff? Do you pay them so well that the recent downturn forced you to lay off some of them and almost made you go belly-up? Or do you pay them just enough so they don't quit (and therefore they work just hard enough to not get fired)? Would you be interested in a way to compensate staff that achieves results?

Too often financial advisors regard staff as cost and fail to compensate them in a manner designed to achieve results. From my experience most practitioners are flying by the seat of their pants in this area of practice management. I don't claim we have *the* solution; we may not even have the best solution. What we do have is a solution that works—one that motivates our team to achieve results.

There are essentially seven components of a strong compensation policy: fixed salary, medical benefits, variable pay, client satisfaction bonus, performance bonus, 401(k)/profit sharing plan, and a company success pool. (For the purposes of this article I will not address the benefits of equity in the firm, though this can be a valuable component of a compensation policy, especially for advisor retention.)

**Fixed salary.** Every associate—including owners—should be paid a fixed salary commensurate to position. For those not involved in revenue generation this will be the majority of compensation. There are many resources on appropriate salary levels, including several annual industry surveys that can guide owners on fixing salary levels. If you want low staff turnover, err on the side of generosity. Pay above-average salaries for your area.

**Medical benefits.** Our firm pays 100 percent of health and dental insurance costs for our associates. They pay for their families. There is nothing quite so demotivating than for an associate to receive a \$50 per period pay raise and a \$40 per period insurance premium increase. Paying for basic insurance is the just thing to do. I also believe it is a large part of why we have had almost no turnover.

**Variable pay.** Staff responsible for revenue generation should receive variable pay based on results in addition to a fixed salary. This motivates and rewards these associates for growing the company while protecting firm cash flow in the event of a sharp revenue drop, which happened at many firms recently. For client wealth managers (or lead advisors) this could be a percentage of production or revenue. It can be linked directly to an individual advisor's personal production or to the entire team's efforts. Both ways have merit; we prefer a model based on team effort because it leads to greater cooperation among the team to serve the firm's clients. Sales assistants/business development assistants who increase revenues for the firm should receive variable pay based on an increase of production or assets under management over a certain baseline (perhaps trailing six months average production.) For example, a licensed assistant who achieves \$10,000 above the baseline in a month might get 2.5 percent of this amount (\$250); but if she achieves \$40,000 above the baseline, she might get 4 percent (\$1,600).

**Client satisfaction bonus.** We measure our clients' satisfaction with our service throughout the year. We

compile the results quarterly and if as a firm we have maintained client satisfaction above a certain level, all associates in good standing receive a quarterly bonus equal to 5 percent of their quarterly fixed and variable compensation. This helps focus our team on taking care of clients and rewards team members for team effort. Even during these very stressful times our client satisfaction index has remained above the level required for us to pay this bonus.<sup>1</sup>

**Performance bonus.** We formally evaluate every associate semi-annually and informally during the off quarters. The formal evaluation includes a scored section, and an associate with above-average performance receives a bonus equal to 2.5 percent of compensation; superior performance merits 5 percent. This is how we tie in individual goals and performance. Between the performance and client satisfaction bonuses, an associate has the opportunity to earn up to 10 percent in additional compensation. (Marginal performance results in forfeiture of all bonuses.)

**401(k)/profit sharing plan.** We have a safe harbor plan that ensures that an associate who will defer 5 percent of compensation will receive a 4-percent match. In addition, we pay an annual profit sharing designed to maximize the firm owners' qualified savings. This results in associates receiving another 3+ percent. The bottom line is that while as an owner I am maximizing my qualified retirement amounts, my staff is putting away 12+ percent of their compensation for the future, of which only 5 percent comes out of their pockets. It helps them save for the future, which many of the administrative staff would not do otherwise.



**Company success pool.** The company success pool helps motivate staff to focus on profitability by sharing in the firm's profits. We have created "shares" based on tenure and management position. Everyone has one share after one year of service and an additional share for every five years of tenure. Key management positions also receive an additional share. This is how it works: Let's say we have \$50,000 of quarterly profit. The first step is to set aside an appropriate amount for future growth. Let's assume that we want to set aside \$20,000. This gives us \$30,000. We have set the pool percentage at 20 percent (with an increase to 25 percent and 30 percent once certain production levels have been reached). This gives us a "success pool" of \$6,000. If there are 10 shares, then the value of each share is \$600 and each associate will be paid based on that amount. But let's say we managed to have \$60,000 in profit. We set aside \$20,000 for growth, leaving \$40,000. The pool is now \$8,000 (20 percent of \$40,000) and each share is worth \$800. *Everyone profits from greater firm profitability and everyone pays attention to costs.* Of course, if profits are less than \$20,000, then no pool is available.<sup>2</sup>

How has this compensation policy helped us? First, it keeps everyone focused on firm growth, client satisfaction, and profitability. Second, it has enabled us to grow more rapidly because incentives are aligned and personnel turnover is minimized. Third, it takes care of people. During the recent downturn, staff salaries never were endangered. Certainly variable pay dropped and if things had become really bad, even the client satisfaction and performance bonuses might have been suspended; but salary, medical benefits, and 401(k) match never were in danger. Finally, the firm is protected in bad times assuming the firm is not overstaffed and the fixed salaries are not too generous. From peak to trough during the recent downturn our firm experi-

enced a 22-percent drop in revenues, but we also experienced an 11-percent reduction in expenses (even after hiring one additional associate) due in large part to the above policy. Our profit margin may be sharply lower, but we still are profitable. And as revenues pick up, so will that margin.

Take this opportunity before the next bull market truly begins to design a compensation policy to achieve results. 

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## Endnotes

- <sup>1</sup> For more information, see Ron Carson (2005), *Tested in the Trenches: A 9-Step Plan for Building and Sustaining a Million-Dollar Financial Services Practice* (Chicago: Kaplan Business): 217–218.
- <sup>2</sup> For greater detail on the overall concept, see Peter and Katherine Vessenes (2005), *Building Your Multi-Million-Dollar Practice*, chapters 3 and 6 (Chicago: Kaplan Business).