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Battle Lines Drawn For Merrill Lynch Brokers

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The sniping is well under way in the war for client assets and commissions generated by the Merrill Lynch brokerage force - the largest in the U.S. and the "crown jewel of the company," in the words of Bank of America Chief Executive Kenneth Lewis, whose institution is set to acquire Merrill.

As usual in the run-up to a merger, many of Merrill's 15,500 U.S. brokers, plus another 1,350 based overseas, are being courted by rival banks and headhunters, as well as Bank of America itself. But most of those producing less than $500,000 in annual commission and fee revenue appear to be out of luck.

B of A has offered Merrill brokers retention packages substantially smaller than other big wire houses are offering as inducements to jump ship, a headhunter on the front lines of the war tells eFinancialCareers News.

According to Darin Manis, chief executive of financial recruiter RJ & Makay in Colorado Springs, Merrill / B of A's package rewards the biggest producers much more than average advisors. Packages are based on the volume of commissions and fees the financial advisor generates for the firm.

"You have companies out there offering Merrill Lynch advisors 200 percent-plus deals with over 100 percent in up-front cash, instead of the 25 percent to 50 percent over seven years (that Bank of America) is offering most of their advisors," Manis points out.

What's in B of A's Broker Retention Package

Bloomberg News reported Oct. 24 that Bank of America offered retention bonuses of up to 100 percent of annual production to the highest-producing Merrill brokers who stay on. Those generating at least $1 million of fees and commissions annually are eligible to receive the full amount over seven years, the news service said. Brokers who produce $750,000 - $1 million of revenue can receive as much as 75 percent of a year's production, while those producing $500,000 - $750,000 may get 50 percent.

About half of Merrill's 15,500 U.S. brokers are likely to qualify for some award, the story said. Merrill brokers in Asia, Europe and the Middle East, were offered separate plans. A separate retention package was offered to Bank of America's own broker force.

When JPMorgan Chase took over Bear Stearns this past June, it reportedly offered retention payments of up to 100 percent of annual revenue to Bear brokers bringing in more than $500,000.

How It Stacks Up Against Rival Offers

Manis says that a financial advisor who generates $500,000 a year in commission and fee revenues can stay at Merrill Lynch / B of A and get $125,000 in upfront cash, or go to one of the other wire house firms and get $625,000 in cash. He says most advisors producing $499,999 and below won't get a dime to stay, and the top two-fifths of advisors under the $500,000 mark were offered just 10 percent of a year's production. "As a recruiter, what we're saying to the Merrill Lynch financial advisors is, 'How would you advise yourself in this situation?'"

Merrill Lynch employees have also seen the value drop for one thing that could have made it worthwhile to stay: company stock and stock options.

"Last year, when the stock was in the 70s, they had golden handcuffs on," Manis says. "Now the stock is in the teens. This factor alone will cause a higher attrition number (than would have occurred a year ago). How much higher remains to be seen. I think this combined with the uncompetitive retention deals (means) it could be as high as 25 percent."

That wouldn't necessarily be a dire outcome for Merrill and its new owner, if dissatisfaction is concentrated among those producing under $500,000 per year. An unnamed source told the New York Post that "the bulk of the bitterness is coming from the lowest-producing advisers - a group Merrill is looking to shed."

The Herd

The top B of A rate was offered to advisors in the $1.75 million bracket. Those doing over $1 million are receiving almost as much. What about the rest of the herd?

"The ones that do under $1 million in individual production got a very low retention package - nothing at all to 50 percent up front," Manis notes. "The average Merrill advisor does less than $1 million in production, so most advisors didn't fare very well in this deal. The average Merrill advisor is a hot commodity and everyone is trying to recruit them."

For any advisor, this is a challenging market. It's especially difficult for those who are relatively new. Even experienced advisors may find it tough to generate fees in 2009 that match 2008's lowered volume. On the bright side, those who are doing a decent job for their clients are unlikely to be axed, while Merrill and its rivals have chopped hundreds of thousands of other financial services workers over the past two years.

"Financial advisors that aren't in the bottom 10 percent of their peers are mostly insulated from being laid off because they are commission, and not salary, employees," Manis points out. "Advisors have a lot of value because they have clients representing assets in the tens of millions and hundreds of millions or more."