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Merrill Moves to Retain FAs

12/1/2008

By JANET LEVAUX

Merrill Lynch is poised to merge with Bank of America in a $50 billion stock transaction and has rolled out a retaining-bonus plan in the hopes of keeping as many of its 16,850 financial advisors within its global ranks as it can. Merrill announced that it was being bought by Bank of America on September 15 and recently said it had a loss of $5.2 billion in the third quarter on revenues of $16 million.

Merrill's global wealth management operations, which include its advisors, had net revenues of $3.2 billion, down 9 percent from a strong third quarter of 2007. The unit had pre-tax earnings of $774 million and a pre-tax profit margin of 23.9 percent vs. 26.9 percent in the prior-year period.

The global private client group's net revenues were $3 billion, down 8 percent from the prior-year period, and fee-based revenues also declined, because of lower market levels. Total client assets in global wealth management accounts were $1.5 trillion.

The firm's financial advisor headcount was 16,850 at quarter-end, a net increase of 160 FAs during the quarter and up 240 from the third quarter of 2007. Merrill also says that its retention, particularly among first and second quintile FAs, continues to outperform the industry average.

And, judging from the details of its latest retention package, it may be easy to understand why.

The package offers advisors producing $1.75

million and up 100 percent of their trailing 12-month production as an upfront bonus on a seven-year forgivable loan, says Darin Manis , head of RJ & Makay , a Colorado Springs, Colo.-based recruiting firm.

Those producing $1 million to $1.75 million receive 75 percent and the remainder as a growth bonus, if that growth equals 25 percent or better, according to various reports. The breakdown of upfront cash and growth bonus is 50 percent/25 percent for those producing $750,000 to $1 million. At the $500,000-to-$750,000 production level, the breakdown is 25 percent upfront/25 percent growth bonus.

But producers with trailing 12-month sales and commissions of less than $500,000 get a 20 percent upfront cash bonus or less if and only if they are in the first or second quintile of all Merrill FAs, according to Manis .

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In April, Merrill said that annualized revenue per FA was about $862,000.

Manis points out that the retention-bonus scheme is based on production credits rather than revenue credits, and that on production credits, the average advisor now does less than $ 862 ,000 per year.

“Overall, I believe for advisors doing less than $1 million in production this is more of an attrition package vs. a retention package,” the recruiter says. “Almost all FAs are doing under $750,000 today, and maybe half (from a head-count perspective) are doing under $500,000.”

Also playing into this scenario are offers being given to some Merrill Lynch advisors who may consider leaving the firm. Some rivals, Manis points out, are trying to lure them away with cash signing bonuses valued at up to 125 percent of trailing 12-months production.

“Overall, it’s a very weak package,” he says, “though it is decent for a handful of Merrill FAs.”

In the week after the packages were announced (October 24-October 31), Manis says his firm organized more than 150 face-to-face meetings between Merrill FAs and other firms.

Separately, Merrill Lynch CEO John Thain has said that some of the firm’s employees should expect to loose their jobs because of the BofA

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