

Table of Contents

Executive Summary 1

Chapter 1:
Aligning Cash Compensation
with Business Objectives 5

Chapter 2:
Reinforcing the Compensation
Plan with Benefits..... 13

Chapter 3:
Establishing Development
and Retention Programs 18

Conclusion 24

Appendix A:
Job Category Descriptions 27

Appendix B:
*About the Developing
a Compensation Strategy
White Paper*..... 28

Appendix C:
TD Ameritrade Institutional
Resources 30

Appendix D:
About the Authors 32

Developing a Compensation Strategy

EXECUTIVE SUMMARY

Advisory firms have posted a solid recovery in assets under management, and revenue and profitability have recovered to pre-recession levels. Now, as they look to the future, many firms see hiring as a path to growth. Coupled with that trend are increasing salaries, new incentive opportunities, growing benefits packages, and expanding ownership opportunities.

All of this data points to an increasingly fluid and competitive hiring market, in which firms have to compete to attract and retain the best talent. As a result, it is more important than ever for firms to see compensation in its proper strategic context. Compensation is a central pillar of human capital management, and when compensation is managed strategically it can help attract and retain talent, as well as boost financial and operating performance. It can also help the industry's ability to close a demographic gap: while the population is aging and facing urgent savings and investment challenges, the average age of advisors is rising and fewer new advisors are entering the profession. Closing that gap is critical for the industry.

For firms to grow and evolve, they will need to align their compensation and overall human capital strategies with their unique strategic needs. TD Ameritrade Institutional collaborated with IN Adviser Solutions to write this white paper, addressing what we have identified as important tools and approaches that may contribute to the success of your firm:

Aligning cash compensation with strategic objectives:

- Take into account the competitive hiring environment, not just in the advisory business, but broadly, so that your compensation strategy is positioned to attract your desired talent no matter where the talent is coming from.
- Align compensation and incentives with the firm's annual and long-term goals and business objectives.
- Set objective goals and metrics, so that employees clearly know what you want them to focus on and the priority of those goals using weightings.
- Consider incentivizing staff at all levels if it works for your business, because everyone contributes to the firm's success.

Reinforce the compensation plan with benefits:

- Don't treat benefits as an afterthought — they are a competitive necessity for most firms.
- Balance benefits with cash compensation and build into the overall package from the beginning.
- Manage costs effectively while still delivering significant value to employees.
- Communicate regularly about the total value of an employee's compensation and benefits.

Implement professional development and retention initiatives to complement the overall strategy:

- Focus on defining and promoting the type of firm culture that you want. Start with 2–3 key themes that drive good behavior, promote teamwork, and deliver value for clients.
- Give staff clarity about opportunities for professional growth and advancement.
- Be part of an ongoing dialogue with employees about performance and career path development.
- Build the firm's skills base so everyone can help achieve the strategic goals.

People are the biggest cost for any advisory firm, accounting for 73% of the average firm's expenses — including salaries, taxes, and benefits (health and retirement) — but top human capital firms¹ view their people as a resource, an investment, even a competitive asset, and they manage accordingly. The 2011 *InvestmentNews/Moss Adams Adviser Compensation and Staffing Study* found that firms with strong human capital practices perform better on a range of metrics: they are more productive across the board and, as a result, are rewarded with higher profitability and owner income (*Exhibit 1*).

Since human capital strategy — and, in particular, compensation strategy — is so connected to the firm's identity, business plan, and mission, approaches will be different for individual firms.

Often, this is a process of evolution. According to Adam Sheer, President of The Roosevelt Investment Group, Inc., a \$4.4 billion advisory firm, their mom-and-pop operation grew very quickly through a series of acquisitions. That growth required the firm's management team to embark

Exhibit 1: Top Human Capital Firms Outperform All Others Financially

	Top Human Capital Firms	All Other Firms	Percent Difference (Top Human Capital Firms vs. All Other Firms)
Clients	273	208	+ 31.3%
Assets under management (AUM)	\$220.0M	\$142.5M	+ 54.4%
Revenue	\$2.0M	\$1.1M	+ 78.8%
Revenue per professional	\$507.5K	\$435.5K	+ 16.5%
Revenue per total staff	\$194.3K	\$183.6K	+ 5.8%
Pre-tax income per owner	\$350.1K	\$235.7K	+ 48.5%
Operating profit margin	14.8%	12.9%	+ 14.6%

Figures reported above are medians

on a program of institutionalizing their vision and business practices. According to Sheer, "As we define who we are and where we want to go — including our size, culture, types of offerings, etc. — we've been trying to understand what resources we need to get there, in terms of individuals, backgrounds, or technology. So while I wouldn't say we have a formal human capital strategy per se, we certainly start with the overall business strategy and then try to fill in the pieces from there, with culture being a huge driver."

Human capital is a valuable asset which, if managed thoughtfully and strategically, can provide a financial and competitive advantage. Particularly when setting compensation, getting the greatest value for the firm and its clients requires that a firm directly link compensation to the firm's strategic annual and long-term goals. This planning exercise can take time and commitment, but the evidence shows successful firms are well rewarded for doing so.

Access TD Ameritrade Institutional's **Building High-Performing Teams** program designed to help advisors assess, design, build, and lead human capital resources to maximize your productivity and achieve your business vision.

Go to [Veo>Resource Center>Practice Management>Human Capital Management](#)

¹See study methodology in *Appendix B*

Aligning Your Compensation Strategy with Your Business Vision

Firm: McKinley Carter
Wealth Services, Inc.

Location: Wheeling, WV

AUM: \$500 million

Staff: 25

Structure: Wealth management,
retirement plan
services, and
philanthropic advisors

According to CEO David McKinley, the firm used to follow a less rigorous and more discretionary approach when it came to compensation, but “That was becoming increasingly hard to do as we grew. We didn’t have a very good system to capture or monitor metrics specifically related to a person’s role within the organization. We were increasingly aware of the need for ongoing performance management and identifying metrics for each particular role, to measure delivery of value and service to our clients — as well as us working as a team.”

He says that once the need became clear, the firm moved from a model that included base salary and some discretionary bonuses to a philosophy of looking at total compensation, including performance-based incentives, what he calls “pay at risk.” Unlike base salary, which is paid automatically, incentive pay must be earned each and every time it is awarded, and, if specific criteria are not met, then the compensation may not be paid — hence it is called “pay at risk.”

At the same time, the firm was growing through the acquisition of regional offices, and the firm’s executive committee felt it was time to sharpen the firm’s mission and sense of identity. According to McKinley, “That helped us focus on the mechanics of human capital. That is, how many people are necessary to effectively deliver on the commitments we’re making in the sales process when we bring on new clients.” By bringing together a new process for total compensation and clarity around the mission of the organization, they were able to uncover further opportunities around organizational alignment.

Because the firm had embraced a strategy of growth by acquisition, it had to grapple with a resource issue in managing multiple locations. McKinley says, “We felt that as we added regional offices, centralizing the client administrative support and account administration functions would lessen the human capital demands on our regional offices. They’d be able to focus more on advisory work and advisor support functions. And the firm’s cost structure would not get bogged down in having too many redundant back office positions.”

While streamlining their administrative support, McKinley says that he maintains a comprehensive forecasting tool that helps him identify skills and resource gaps, both near- and long-term. The firm uses a wide variety of tools and strategies to fill those gaps, from internships, to mentoring, to professional education. But in all of their human

capital efforts (both compensation and hiring), they pay strict attention to culture.

He says, “Compensation is a tool that helps us foster a culture for individuals to pursue career ambitions, yet understand that we achieve more together than we can as individuals.” McKinley believes that culture and professionalism are essential drivers of success in a business that “sells services, not products.” He says that in institutionalizing the business, the firm’s compensation strategy has “evolved toward providing specific incentives around the work that individuals and teams are producing.”

Through a rigorous process of planning and implementation, McKinley Carter has developed a comprehensive compensation strategy that supports all pieces of the human capital puzzle: business strategy, organizational structure, total rewards design, resource management, skills development and acquisition, retention, and growth. Their plan reflects their specific needs and growth patterns, as well as specific soft priorities like culture and teamwork. This comprehensive approach to human capital management helps ensure that they are aligned with their mission and can achieve their strategic goals.

Aligning Your Compensation Strategy with Your **Business Vision** (continued)

MCKINLEY CARTER'S HUMAN CAPITAL AND COMPENSATION STRATEGY COMPONENTS

Oversight:

- Executive Committee articulates identity and crafts business strategy
- Formal compensation philosophy establishes objective principles that guide the firm in setting compensation
- Forecasting tool analyzes staffing levels and ratios — to assess workforce planning/capacity and manage productivity/profitability
- Centralized back office and regional office structure creates firm-wide process efficiencies and minimizes client service gaps

Compensation Strategies:

- Benchmarking establishes appropriate range
- Roles and responsibilities determine compensation levels
- Raises tied to performance, not cost of living adjustments
- Variable pay or "pay at risk" (i.e., bonus/incentives) rewards behavior, using role-specific performance metrics, aligning with firm growth objectives
- All staff eligible for short-term compensation incentive plan

Growth Strategies:

- Internships identify young talent
- Recruiting fills skills gaps
- Promoting from within fills skills gaps and aids retention

Development Strategies:

- Mentorship
- Education
- Performance Updates/Check-Ins (biweekly)
- Career discussions and goal setting

Aligning Cash Compensation with Business Objectives

The most important question for most firms is how to set base salary and incentives, as these can make up 70% or more of an employee's total compensation. There are many external guideposts as to what industry standards are, but few clues as to what a specific firm should pay its staff. Pay ranges can be quite broad. So the question of "How much?" is a philosophical one that each firm's executives must answer for themselves, given their strategic goals and priorities.

Yet, even when a firm settles on a compensation level, that is just the first step in effective implementation of a cash compensation package. As outlined in the study's compilation of best practices that contribute to outperformance (see sidebar), compensation is most effective when combined with goal setting, role clarity, career path development, and regular performance reviews.

Michael Nathanson, CEO of Boston-based The Colony Group, put it very simply: "Any good compensation plan should have clarity, predictability, and offer the appropriate incentives for the participants."

CRITERIA USED BY INVESTMENTNEWS/MOSS ADAMS TO IDENTIFY TOP HUMAN CAPITAL FIRMS:

1. Average effectiveness score of ≥ 3.5 out of 5 on fourteen employee retention factors
2. Top quartile for revenue/staff
3. Clearly defined individual goals and objectives
4. Clearly defined firm goals and objectives
5. Documented job descriptions for all employees
6. Employee awareness of job descriptions, roles, and responsibilities
7. Defined career paths and organizational structure for employees
8. Employee awareness of career opportunities and organizational structure
9. Formal training program in place to train and educate staff
10. Employee performance evaluations
11. "Very effective" or "somewhat effective" performance reviews

That description is deceptively simple on the surface. When you dig into the details, you'll find that achieving each of the above three criteria takes skill, discipline, and organizational savvy. Throughout the rest of this chapter, we focus on five practices that may help advisors achieve their goals of clarity, predictability, and appropriate incentives.

Some of these practices were drawn from the 2011 *InvestmentNews/Moss Adams Adviser Compensation and Staffing Study* and some from the firms interviewed for this white paper. We believe that together they offer a very useful roadmap to success in managing cash compensation — one of the biggest costs and challenges on the human capital agenda.

Be Strategic in Setting Cash Compensation

One of the first steps in setting cash compensation is to understand the standard industry rates for various types of companies and staff positions. According to David McKinley, his firm is "pretty exhaustive in looking at where all of our base rates fit relative to the industry, as well as to the broader industries." Once you have a clear picture of the competitive recruiting landscape, the next step is to make a decision about where the firm wants to be — or needs to be — on the competitive scale, in order to achieve its objectives. Compensation scales can be extremely broad. *Exhibit 2* (page 6) shows that a wide disparity in pay scales is the rule, not the exception, for every job category in the industry. See *Appendix A* for descriptions of the job categories listed in *Exhibit 2*.

Access the *Design* guidebook from the **Building High-Performing Teams** program, which contains tips on making decisions about organizational structure, defining roles, crafting job descriptions, and assessing current team members.

Go to Veo>Resource Center>Practice Management>Human Capital Management

Exhibit 2: Salary and Incentive Scales by Percentile

	← 5th 25th 50th 75th 95th →				
BASE					
BONUS					
Professionals (e.g., Financial Planner, Investment Advisor)	35K \$1.5K	67K \$7K	100K \$18K	185K \$42K	300K \$164K
Dedicated Management (e.g., Chief Executive Officer (CEO), Chief Operating Officer (COO))	40K \$1.5K	69K \$5.5K	103K \$16K	169K \$36K	309K \$196K
Technical Specialists (e.g., Financial Planning Specialist, Research Analyst)	35K \$1.0K	50K \$3.0K	75K \$6K	102K \$15K	179K \$68K
Support Staff (e.g., Support Advisor, Trader, Portfolio Administrator)	30K \$0.5K	40K \$2.0K	47K \$3.7K	56K \$6.7K	75K \$16K
Administrative Staff (e.g., Office Manager, Assistant)	25K \$0.5K	35K \$1.5K	42K \$3.0K	53K \$5.7K	86K \$15K

Many issues can factor into the firm's strategic decision about where they want to be on the compensation scale: both external issues (e.g., regional pay standards, industry competitiveness, and talent availability) and internal ones (e.g., budget constraints, unique service model, or filling skills gaps in key service areas). For example, Michael Nathanson says that The Colony Group has made an explicit commitment to being on the "higher end" of the compensation scale in all job categories. Lew Altfest, of Altfest Personal Wealth Management, has an actual quantitative target of being in the top quartile. Other firms may feel they can attract the necessary talent with mid-range salaries complemented with generous and well-designed benefits and incentives.

There isn't one answer for where an advisor would want to be on the compensation scale. Thought should be given to what roles require higher-end salaries and what roles may be on the lower end, depending on their direct contribution to business goals. Additionally, you can have more flexibility if you establish an internal pay range for particular roles, so that you can vary who you hire and what experience and salary requirements they come with.

The key point here is that while each firm has to decide for itself, it should follow a deliberate and thoughtful decision-making process. Firms should not just randomly pick a spot on the compensation scale; they need to know *why* they are choosing that spot. For a compensation program to be most effective, it has to be built with an explicit strategic rationale in mind.

Set Goals and Incentives that Align with Your Business Strategy

Once you've established your salary ranges, you should align your incentives to your business goals. Effective compensation planning is not just about what you pay, but also about setting specific goals for what you are paying for, and to whom. David McKinley says that for several years his firm has been working to "align" the firm, starting out by crafting a clear statement of mission, vision, and values. Like McKinley, Lew Altfest views compensation as a way to "reward the execution."

Firms need to be clear with employees that they are being rewarded for specific results. At The Roosevelt Investment Group, the executive Strategy Committee makes the final decision about objectives, both for the firm and its many teams. But, Adam Sheer says that employee involvement in the process is critical: "We use a top down/bottom up goal-setting process. First, the Strategy Committee loosely sets the overall business goals. Then, we go to each area of the firm and ask what they think they can contribute to that goal. We like to get input from our people about what resources they need to get us where we want to go, and what they think is achievable by their team."

In their final formulation, however, goals should be assigned and weighted according to the role and function of each staff member, and/or the deliverables for each team. David McKinley says, "For example, as CEO my goals might be heavily weighted toward corporate priorities, while the head of Wealth Management might be heavy on the team side, and individual advisors might be heavy on individual goals."

Exhibits 3 and 4 show some of the core success criteria used in incentive plans — the "Top Human Capital Firms" are shown in dark green, and "All Other Firms" are in light green. Success criteria for professionals, mainly client management and advice-oriented positions, are more tied to firm performance and client service goals. By contrast, success criteria for nonprofessionals are much more individual and task-based.

Exhibit 3: Performance-Based Incentive Compensation Drivers for Nonprofessionals

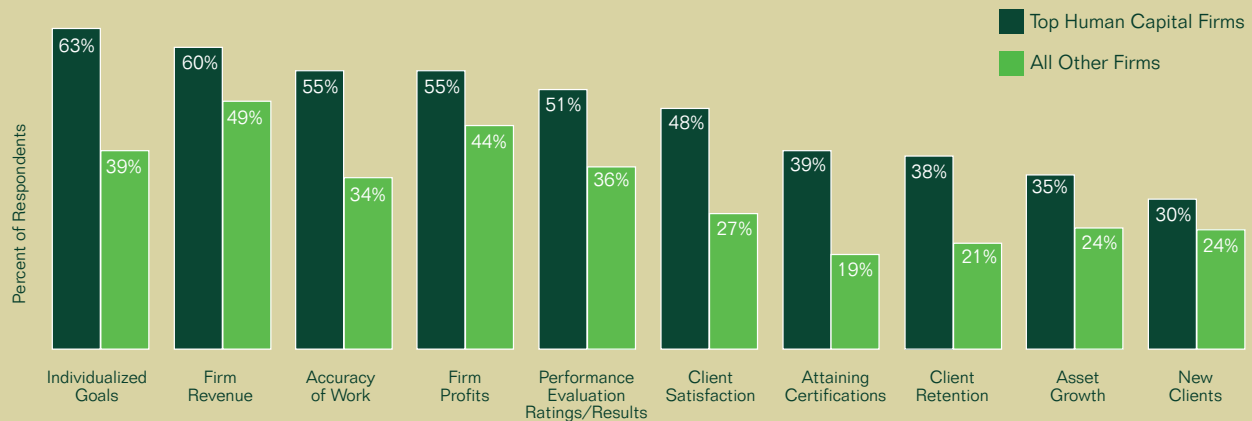
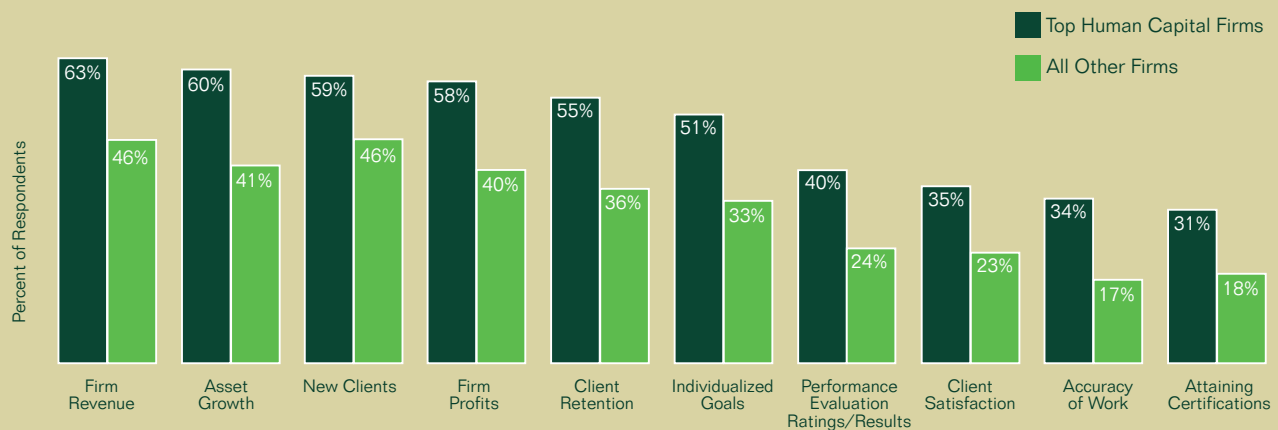


Exhibit 4: Performance-Based Incentive Compensation Drivers for Professionals



Incentivize Everyone

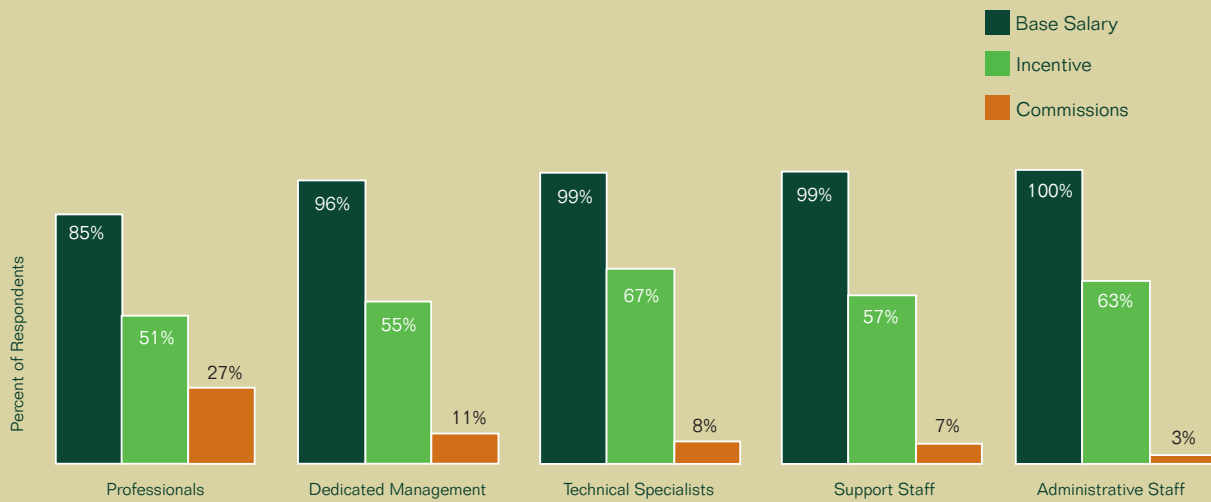
Advisors should not be afraid to be creative and broad-based when designing an incentive plan. Study data indicate that incentive opportunities (i.e., bonuses) are a standard part of the compensation mix for the majority of staff — including nonprofessional staff (*Exhibit 5*).

Michael Nathanson of The Colony Group believes that all employees, no matter what role they play, contribute to the firm's success; thus, not only should they all be rewarded, but also incentivized to maximize that contribution. "Every time we earn a new piece of business, it's not just because our investment professionals are doing a good job managing

portfolios. Or because our wealth managers do a good job providing financial counseling services. It's also because of the way we present ourselves, and the way the receptionist answers the phone, and the way an administrator might greet a client at the door."

Incentive programs can be unique and creatively applied to the challenge of engaging and motivating staff, and rounding out the firm's compensation plan. For example, incentives might be aimed at increasing efficiency or productivity. The Colony Group devised a unique bonus program that includes both a new-business incentive component as well as an overall bonus pool tied to firm performance and profitability.

Exhibit 5: Percent of Incumbents Receiving Base Salary, Incentive, and Commissions



Use Quantitative and Qualitative Metrics

With any incentive program, it is important to identify specific deliverables required to earn those incentives, so that employees' performance can be tracked, measured, and rewarded. Metrics set standards for behavior and foster a dialogue between supervisors and employees about performance. Some performance metrics are relatively easy to express quantitatively, others are more qualitative — and it is important to have both.

Examples of quantitative metrics might include broad firm goals like new clients, new assets, and client retention. But metrics are as flexible as firms want to make them, and especially for support and administrative staff, they should take into account specific job responsibilities — e.g., time to complete a workflow, error rates in data input, etc.

Equally important are soft goals like leadership, which can be extremely important in aligning performance with culture and values, but are difficult to measure. Evaluating performance on such qualitative metrics can be difficult, as

these metrics can often be seen as subjective. It may be helpful to use concrete behavioral examples when discussing these with employees, to try to be as objective as possible and help employees understand what is driving their assessment on these criteria.

Again, different firms choose different metrics and weigh them differently depending on their specific goals and priorities. Lew Altfest says that at his firm, "We do evaluate people individually; for example, project leaders will have individual goals. But the quantitative goals that drive our incentive plan are mostly team-based. Because culturally what we want are people working toward collective goals."

"Alignment doesn't magically happen when you throw money at somebody."

—David McKinley, CEO
McKinley Carter Wealth Services

Manage Proactively

Managing performance is an ongoing challenge that goes well beyond setting the right compensation. Performance reviews help employees connect what they are getting paid with what they are getting paid to accomplish. For this reason, it is important to regularly review their progress, so they understand how they are contributing to the firm's performance.

According to the study data, most reviews are annual (66%), with only a small percent being semiannual (19%), or quarterly (10%). And while it is encouraging that most firms conduct reviews, it should be noted that reviews do not necessarily have to be tied to an annual compensation review. Instead, giving employees timely feedback on a regular basis can be an opportunity to encourage staff development and continuous improvement year-round.

According to David McKinley, "The traditional method most organizations use is short-sighted. You can't expect that one or two conversations a year is going to produce alignment with the organization's goals. Alignment doesn't magically happen when you throw money at somebody. So, a major component of our plan is a structured dialogue between managers and their direct reports." His firm is in the process of instituting short, biweekly discussions for managers to check in with their direct reports.

He also argues that the firm's overall compensation strategy is not something that can be put on autopilot. It should be revisited on a regular basis to ensure that it is yielding the desired result. As the firm grows and evolves, it may have to be adjusted to reflect new realities — in terms of staffing structure, productivity issues, retention and recruiting goals, etc.

Summary

Base salary and incentive-based bonuses are the foundation of a firm's overall compensation package. They constitute the largest expense to the firm and the largest share of an employee's compensation, so getting this piece of the puzzle right is extremely important.

In setting cash compensation levels, the fundamental guiding principle should be strategic: finding a level and structure that support the firm's near- and long-term objectives and fit with its financial resources. But once that is established, firms need to recognize that the program has to be actively managed — i.e., there are a number of complementary steps required (like goal setting, measurement, and regular communication) to ensure that the compensation plan is delivering the most value to the firm, its employees, and its clients.

"Any good compensation plan should have clarity, predictability, and offer the appropriate incentives for the participants."

—Michael Nathanson, CEO
The Colony Group

Key Takeaways on Aligning Cash Compensation with Business Objectives

1. Be Strategic

Understand the market for the positions you are hiring for, then be explicit and thoughtful about where you want to fall on the compensation scale.

2. Set Goals and Incentives that Align with Your Business Strategy

Set explicit goals for the firm, for individuals, and for teams, based on their job function and contribution to the firm's strategic objectives. Remember to include soft priorities like teamwork that foster culture and values.

3. Incent All Staff

Create incentives at every level to promote successful behaviors, because everyone contributes to the firm's success and should be incented to do so.

4. Use Objective Metrics

Objectivity gives staff a clear idea of what they need to deliver, and provides the basis for productive conversations.

5. Manage Proactively

Don't treat the performance review process as a one-off event; it should be managed as an ongoing dialogue. Review and adjust the compensation program as often as necessary to keep human capital resources aligned with both immediate and longer-term priorities.

Reward Behaviors that Lead to Success

Firm: *The Colony Group*
Locations: *Boston, MA; Naples, FL*
AUM: *\$2.6 billion*
Staff: *59*
Structure: *Separate wealth management and investment management divisions; offerings include tax, family office, and corporate services*

"Everyone should be thinking about how they can perform in a manner that justifies receiving a bonus." That's the philosophy of Michael Nathanson, CEO of The Colony Group.

He believes that all employees should be eligible for incentive programs, but hand in hand with eligibility go very clear expectations for performance. Nathanson says that his firm's compensation structure is "almost entirely objective," and that the firm takes care to communicate thoroughly about performance criteria. "In order to have an effective compensation policy, you have to communicate the criteria for your compensation policy to the people who are going to receive the compensation," says Nathanson. "Otherwise, you are not utilizing the plan to properly incent and reward your people. So we endeavor in all cases to be crystal clear with our employees as to how we think about compensation."

He says that this approach is based on a longstanding philosophical commitment to disciplined management of compensation, which he says the firm believes is "one of the key determinants of firm-wide success." He reports that, for years, performance metrics have been set and managed by a cross-disciplinary team of executives. And as the firm has grown — and staff roles have become more specialized — success metrics have evolved accordingly. Today, the firm has a dedicated business development team, a dedicated business management team, and two operating divisions — one for wealth management, and one for investment management.

Nathanson believes that, "This type of structure allows for greater efficiency and greater infrastructure. Everyone is positioned to do what they do best."

In doing "what they do best," however, employees' responsibilities and job functions must align with very specific metrics — many of them quantitative — which determine their compensation. For example, for wealth managers, the firm looks at the number of advisory relationships, client satisfaction and retention, revenue, and business development, to name a few. By comparison, metrics for investment managers include assets under management, returns versus client objectives, and revenue attributable to asset management, among other

criteria. The firm does use some subjective criteria like leadership, efficiency, and teamwork, but wherever possible those are discussed in objective terms with employees, so they know how they are being measured.

In addition to individual criteria, Nathanson says that bonus payouts are determined by quantitative firm-wide performance metrics. He says that the firm has a quantitative tool in the form of a "spreadsheet," which is discussed with all the employees. So they know exactly what level of profitability is required to fund the bonus pool, and what criteria are used to allocate bonuses once the pool has been funded.

COLONY'S REWARD AND RECOGNITION PLAN:

- Develop a plan that rewards everyone in some way, because when the firm wins and retains business, it is due to the hard work of all involved.
- Establish individual and firm-wide standards for performance — make them as quantitative as possible — and then use those metrics to set clear expectations in every part of the program.
- Communicate regularly to staff to raise awareness and motivation around specific behaviors and attitudes that drive success.

Reward Behaviors that Lead to Success (continued)

The firm's new-business incentive plan offers an example of how principles like these can be creatively applied in unique ways according to a firm's specific culture. "We believe that new business should be something that everyone's thinking about, and we want people to be excited about generating new business for us," says Nathanson.

The firm's new-business incentive plan prioritizes "truly new business," and awards higher bonuses for assets that employees bring in "completely on their own," rather than through existing clients or referral sources (see chart).

Nathanson says: "We incent certain roles and teams differently because the expertise they are offering our new clients or prospects varies, but the company-wide pool reflects the fact that it takes our entire company to produce and retain business — when we win, it's reflective of the way we're all doing our jobs. So everyone should be a participant."



Reinforcing the Compensation Plan with Benefits

Managing human capital is about much more than just compensation. It's about using compensation and benefits to drive performance and motivation among your team. In this challenge, there are many levers to consider (e.g., base salary, bonuses, benefits, and non-cash compensation like education and paid time off). Every firm will find a different combination of rewards and incentives that works best for its people, its clients, and the firm overall.

In addition to compensation, benefits are an important part of the total rewards picture. Base and bonus may constitute approximately 73% of an employee's compensation, but that still leaves nearly a third that is made up of insurance benefits, education and training benefits, paid time off, and taxes paid by the employer, among a range of other costs that contribute to the value of the employee's total compensation. *Exhibits 6a and 6b* show the breakdown of cash and non-cash compensation for two key roles that are common in most advisory firms.

Making the most of this investment requires thinking about the total package. Says Michael Nathanson, CEO of The Colony Group: "We look holistically at compensation, and we present it holistically to our people as well. So every year, when we sit down with our people to discuss compensation, we do go through all of the benefits and profit sharing that we offer."

Stay Competitive by Offering Benefits Programs

A large majority of firms offer health insurance (*Exhibit 7*), with nearly half of all firms offering not only health insurance, but also dental, long-term disability, and life insurance. In addition, a sizeable minority of firms offer spousal and dependent benefits. Finally, those that offer such benefits often assume a large share of the expense — between 65% and 85% of premiums for both employee and spousal health and dental benefits.

With such a large number of firms offering such a wide range of benefits, it raises the bar for all firms. Part of the explanation for the industry's generosity is the need to compete with a broader financial services industry in which such benefits are not only commonplace, but taken for granted. Yet, not every firm can afford every type of benefit. So the benefits decision needs to be made strategically, not randomly, as to what will deliver the most impact — i.e., which benefits will be most valued by employees, provide the most effective recruitment and retention tool, and deliver the most value to the firm.

Exhibit 6a: Sample Total Compensation Statement for an Administrative Assistant*

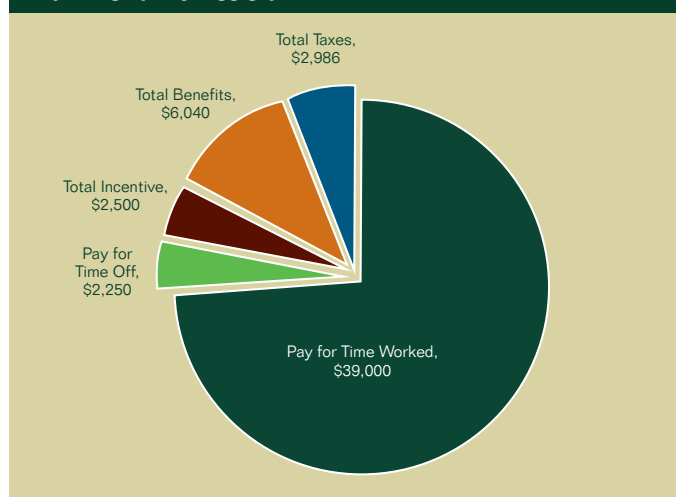
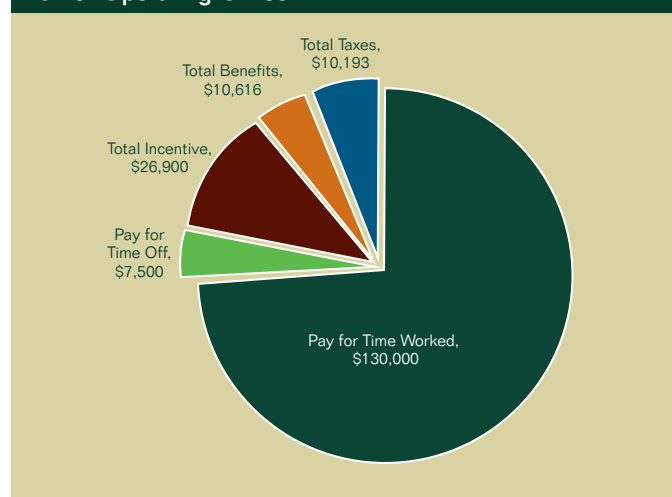
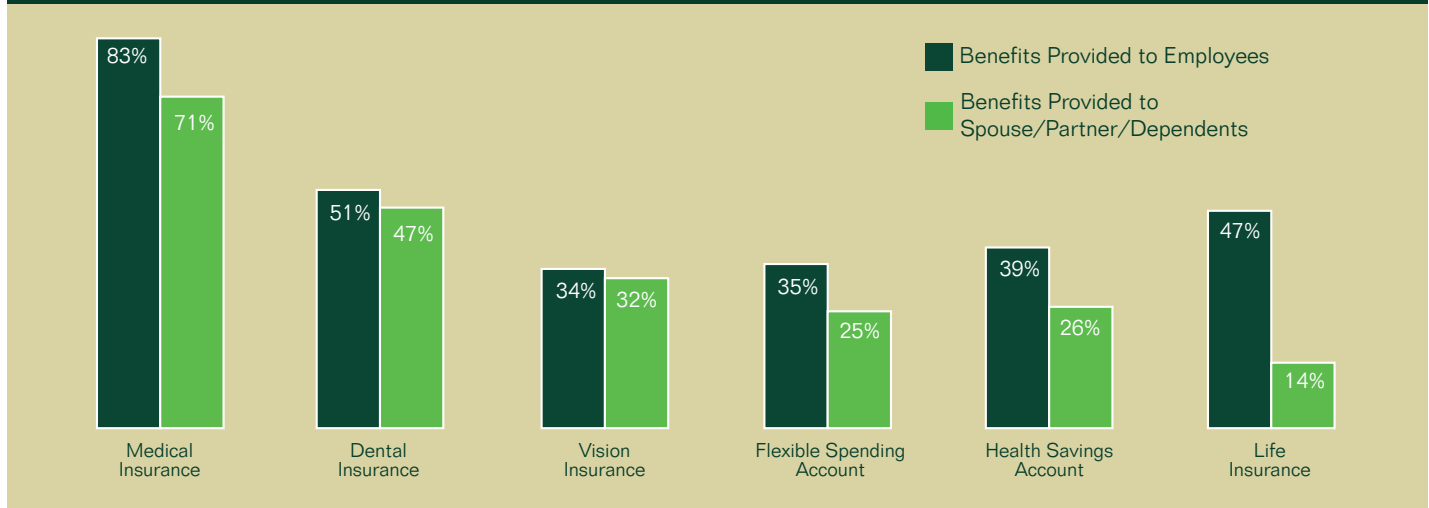


Exhibit 6b: Sample Total Compensation Statement for a Chief Operating Officer*



*Pay for Time Worked and Total Incentive are median compensation data points from the 2011 *InvestmentNews/Moss Adams Adviser Compensation and Staffing Study*. All other amounts are estimates.

Exhibit 7: Types of Benefits (Percent of Firms Offering)



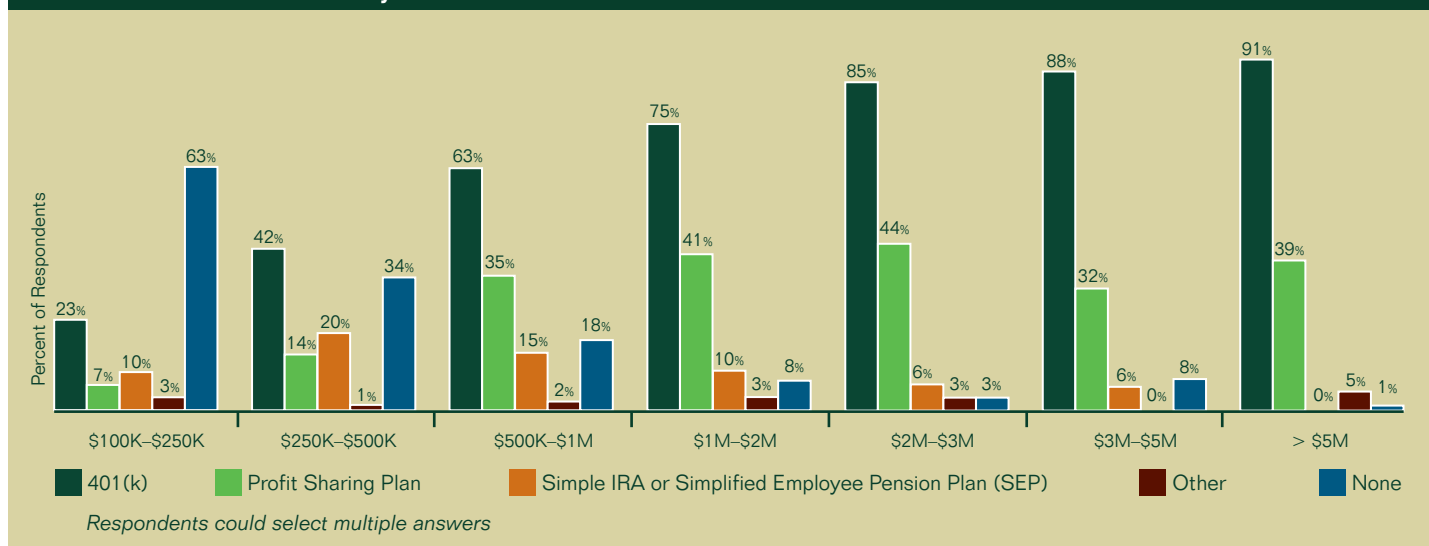
Support Employees' Retirement Goals

In the area of retirement benefits, the story is similar. For firms above \$500K in revenue, some sort of retirement program is the norm — often a combination of 401(k) and profit sharing (*Exhibit 8*). Firms above this level that don't offer a retirement plan may be leaving their compensation plan with a competitive disadvantage. According to study results, the average 401(k) match is between 3% and 4%, at a reasonable cost to the firm of between 0.5% and 1.5% of revenues. Adam Sheer of The Roosevelt Investment Group says that his firm has had a 401(k) plan for ten years. He says, "It's amazing to me to be in the money business and

trying to help people with their retirement if you don't offer a retirement plan of your own. It's not really walking the walk."

Advisors interviewed for this white paper had differing views on the extent to which benefits programs support retention, but they were universally in agreement that benefits programs are a competitive necessity. Adam Sheer says: "My feeling is that benefits plans don't necessarily retain people, but when people go to look for a new job, if they already have robust benefits where they are, they're going to expect those benefits somewhere else." This is especially true when firms have to compete with wirehouses and other types of financial institutions to attract investment and advisory talent.

Exhibit 8: Retirement Benefits by Firm Size



Build a Culture with Career and Quality-of-Life Benefits

In addition to the basics, discussed above, many firms venture into new and creative areas for benefits. Education benefits are one example, and are discussed further in the next chapter on development and retention. This type of benefit could include formal education at an accredited institution, informal training from vendors and partners, or even travel to industry conferences.

Beyond job-related benefits, many firms have success with team-building benefits, recreational type benefits, and philanthropic initiatives. For example, The Colony Group buys breakfast for staff every Monday morning. The Roosevelt Investment Group holds "Pizza Fridays," informal gatherings to wind down the week — the firm provides the pizza, and employees get to enjoy some downtime together away from the pressures of the work week. The Colony Group also offers a gym benefit for active users of the gym facilities in the company's office building, and during the crunch of tax season, they allow business casual attire in the office. Other benefits reported in the *2011 InvestmentNews/Moss Adams Adviser Compensation and Staffing Study* included parking, transportation reimbursement, and sabbaticals for staff with long tenure.

The Roosevelt Investment Group has also had success with new philanthropic initiatives. The firm allowed a group of employees from their Providence, RI, office to spend a weekday afternoon cooking meals at their local Ronald McDonald House. Roosevelt's President, Adam Sheer, said that the camaraderie and enthusiasm after the event was palpable, and there was little cost to the firm: "I think that if overall people are happier and this contributes to it, yet there's very little cost, I think those kinds of initiatives are critical to our growth."

Summary

Comprehensive benefits packages are becoming the norm in the advisory business, mostly for competitive reasons. But increasingly, forward-thinking firms are taking a holistic view of benefits and using them to reinforce cultural goals and behaviors as well. According to Michael Nathanson: "We do it because it's the right thing to do and because our overall philosophy is that if we do the right thing, we will continue to be a great company with great people — and we'll do great things for our clients."

Key Takeaways on Reinforcing the Compensation Plan with Benefits

1. Think Holistically

Compensation should be designed and presented as a total rewards package, as the firm's compensation costs include much more than just salary and incentives.

2. Stay Competitive

Study data shows that comprehensive benefits packages, including health and retirement benefits, are the norm in the advisory business. So to attract and retain highly skilled people, firms need to consider compensation in a wider industry context.

3. Manage Cost Efficiently

The cost of benefits programs can be manageable to even smaller and mid-sized firms, when they take into consideration different types of benefits and their perceived value.

4. Communicate Regularly

Successful firms communicate regularly with staff about the value of their total compensation: as part of the hiring process; in annual compensation reviews; in regular benefits presentations; and through printed educational material. Keeping staff knowledgeable about the value of their compensation can help drive motivation and engagement.

5. Be Creative

There is no limit to how creative a firm can be with benefits. The key is to first identify the needs and interests of your staff, and then find a unique approach that fits with your culture and business model.

Creating a Benefits Program that **Attracts Talent**

Firm: *Altfest Personal Wealth Management*

Locations: *New York, NY*

AUM: *\$850 million*

Staff: *23*

Structure: *Investment management and financial planning*

“Our philosophy is to be a very good firm to work for, and to get good people and keep them for a very long time,” says Lew Altfest, who founded Altfest Personal Wealth Management in 1983.

Altfest believes that having a strong benefits program makes the firm a good company to work for and enhances the quality of employees’ work/life balance, which he says is an important part of the firm’s culture. Costs and resource constraints are a significant consideration. “It’s perhaps not as costly as people think, and there are strategies that improve the affordability of these kinds of programs.”

He says that this philosophy has led the firm to offer not just a wide range of benefits, but high-quality benefits for which the firm pays most of the cost. The foundation of the program is a generous insurance benefit that includes a choice of three medical plans with spousal and dependent benefits, as well as dental, vision, disability, and life insurance. The firm offers what he calls a “generous retirement benefit.” Time-off benefits start at two weeks of vacation and graduate to four weeks when employees reach the nine-year mark. The firm also offers education benefits,

travel to conferences, and a range of development programs, including one that trains people who want to join boards of nonprofit organizations.

For example, the firm now offers a choice of three medical plans: an in-network plan (which is the least expensive), an out-of-network plan, and an in/out of network plan (which is the most costly). A key strategy for savings was a move to being partly self-insured. But the firm uses other innovative cost saving ideas: for example, if employees choose to join their spouse’s insurance plan, the firm will split the premium savings with them; if employees choose the least expensive in-network plan, then the firm makes a contribution to a pre-tax flexible health spending account. Altogether, the firm has saved \$100,000 on medical costs, which they redeployed toward providing dental, vision, disability, and life insurance.

On the retirement front, they offer a traditional 401(k) as well as a Roth 401(k), and make an annual profit sharing contribution of up to 7.5% of salary. “We think that being generous is valuable for our employees,” says Altfest. “But more than that, we think it’s going to help in terms of retaining people and creating a satisfied staff that works hard for our clients and does a good job.”

At Altfest Personal Wealth Management, a comprehensive benefits program helps achieve a wide range of strategic priorities, from development, to retention, to important cultural goals like quality of work/life balance. They have been able to address resource constraints with

creative approaches to benefits management. And Altfest reports that the firm is indeed able to keep people “for a very long time.”

MAXIMIZING THE VALUE OF YOUR BENEFITS OFFERING

Lew Altfest suggests the following three guidelines for managing benefits programs:

- 1. Don’t Do It All at Once:** It’s worth noting that his firm has been in business for nearly 30 years, and has built out its offerings over time.
- 2. Communicate the Value of Your Benefits Program:** His firm brings in insurance brokers at least once a year to discuss benefits with employees. He believes that, being in the financial planning business, his people appreciate the value of their benefits once it’s explained to them, and that education is repeated on a regular basis.
- 3. Delegate Supervision of Your Programs:** “Resource constraints can be tough on a small firm, but it’s worth the effort to put someone in charge of it.” For example, one of his employees wanted summary information about the firm’s medical benefits. So he empowered her to head up a committee that drafted a pamphlet on the firm’s benefits program, which is now shared with all employees.

“Our philosophy is to be a very good firm to work for, and to get good people and keep them for a very long time.”

—Lew Altfest, Founder
Altfest Personal Wealth Management

Establishing Development and Retention Programs

Cash compensation and benefits are key parts of a firm's total compensation strategy. But once an employee is on board, it is in the firm's best interest to maximize each staff member's ability to contribute (through development), and make sure that those acquired and developed skills benefit the firm over time (through retention). While not technically compensation, development and retention programs are a potential benefit for employees and a potential cost to employers; so they should be considered part of the overall package.

Development and retention programs help firms create an atmosphere where employees want to strive and thrive — and make a long-term commitment to generating value for clients. They can help a firm build new skills in different services areas (e.g., tax or estate work), or in different types of investments (e.g., alternative investments) — without always going out to the market to acquire those capabilities.

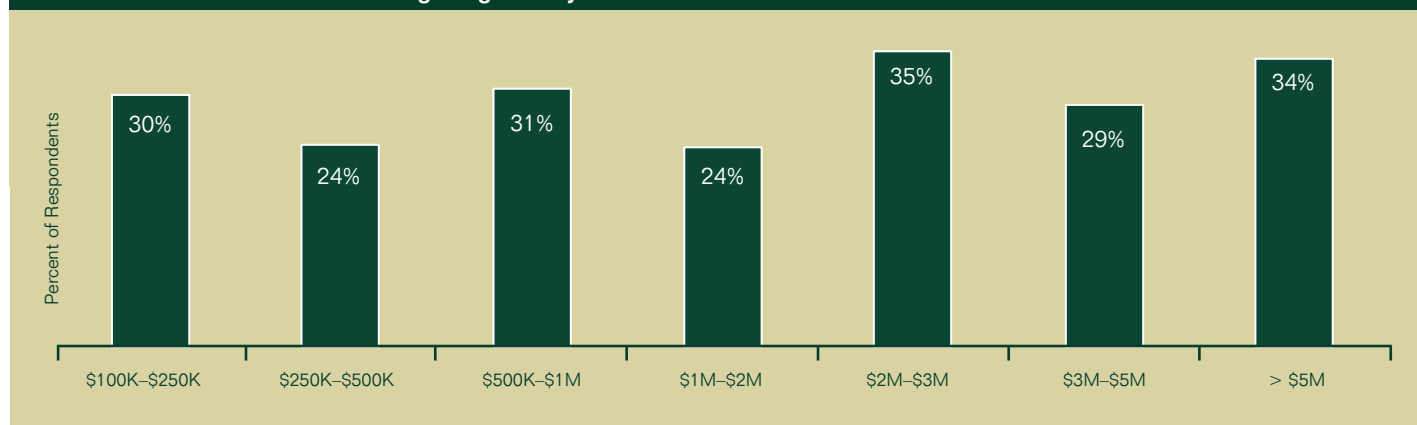
Adam Sheer of The Roosevelt Investment Group says: "I don't feel that any employee needs to be loyal to me. Of course I'm happier when they are, but it's not what they owe me. What they owe me is to work hard and do a good job, be honest, and care for our clients. My job is to make this a great atmosphere, where people want to work and grow. Because if you're not growing, you're shrinking. So if I want to attract top people who really want to pull together and be entrepreneurial and grow, I've got to do the best I can to create an atmosphere where they want to do it here."

Provide Avenues for Education and Development

Skills development is an important part of the human capital mix. Firms often hire specific skill sets for specific reasons, but as a firm grows and evolves, its needs inevitably change. Filling skills gaps through education, training, development, and internal promotion is not only cost-effective, but it's critical to maintaining continuity of operations and quality of service for clients. Surprisingly, while study data shows that the industry overall could stand to make improvements in this area, smaller firms were just as active as larger firms in the area of formal training (*Exhibit 9*).

David McKinley reports that McKinley Carter spends over 2.5% of gross revenue on education programs — which includes degree programs, professional development by attending conferences, or continuing education credits for professional designations. Program participation is open to all employees, and the firm pays the cost of the program. But, deciding on eligible programs is the result of in-depth discussions between staff members and their supervisors. The benefit is not just freely available: McKinley says qualifying for an education benefit "is the result of a collaborative process between the employee and supervisor, or manager, about the areas in which the employee wants to develop their skill set."

Exhibit 9: Firms with Formal Training Programs by Firm Size



Adam Sheer of The Roosevelt Investment Group says that at his firm, “We certainly ask staff what they feel their strengths are, and we ask what the firm could be doing better to help them further their goals.” The firm has an informal education benefit in which employees are eligible to be reimbursed for educational programs, if they remain with the firm for a specific period of time after the education is complete. The firm complements this effort by encouraging personal development in the broader industry: for example, he says that the firm encourages people to write articles and participate in conference panels. He says, “When we are growing as a firm, we always have in mind the capabilities of our people and where they can personally grow.”

Share Knowledge Across the Organization

While education and training build skills and fill gaps as the business grows, the firms interviewed for this white paper all said that they had some type of formal mechanism for sharing that knowledge throughout the organization. For example, as part of its education benefit, McKinley Carter requires that staff members pursuing education or training programs share new knowledge and best practices with the rest of the firm.

According to David McKinley: “The expectation is that the education we’re paying for is strategically relevant. So when they come back, there is an expectation that they share what they learned and how is it applicable here. They will speak to the group in the firm for whom that knowledge is most relevant, summarizing what they learned and any action items that might come out of that for strategic or tactical relevance in their department, or for the firm in general.”

Beyond short-term sharing mechanisms, many firms use mentorship programs to share both cultural and professional knowledge. The Roosevelt Investment Group instituted a mentorship program for new employees that lasts for several quarters after they join the firm. An experienced employee takes a new employee out to lunch, or some other outside activity, on a regular basis — the goal is fourfold: to share insights into daily operations at the firm, to help new employees get acclimated, to establish a sense of connection to the firm, and to maintain a new employee’s enthusiasm beyond the first few months of employment.

According to Adam Sheer: “We get a lot of feedback from the mentors and mentees. The program helps the mentor to grow, because mentoring is a wonderful growth opportunity. The mentee feels far more comfortable and cared about. It just seems to me that the people participating in this are a lot happier.”

McKinley Carter focuses on professional mentorship among its advisors. David McKinley says that the firm’s mentorship program among its advisors goes hand in hand with its encouragement of credentialing at different levels (e.g., everything from para-planner to full CFP certification). Junior staff may spend two, three, or four years working with and supporting a more senior advisor, to help them develop certain capabilities and competencies that are key to the firm’s service delivery model.

He says that, over time, junior staff also begin to operate with more and more independence. According to McKinley: “The lead advisor is, in fact, leading the efforts of other advisors within his or her team, and there’s definitely an expectation that they are setting an example, and that they’re mentoring and helping people develop. What we have seen, and what we intend to continue to do, is that those first four or five years are about developing technical competencies. Then the next four or five years are about developing leadership skills.”

“When we are growing as a firm, we always have in mind the capabilities of our people and where they can personally grow.”

—Adam Sheer, President
The Roosevelt Investment Group

Access the *Lead* guidebook from the **Building High-Performing Teams** program. Find tools that can enhance management and leadership skills to increase the engagement and retention of staff, streamline business operations, manage performance, and plan for business succession.

Go to [Veo>Resource Center>Practice Management>Human Capital Management](#)

Stretch Retention Strategies Beyond Just Dollars

Michael Nathanson of The Colony Group says that every firm has to ask itself: “Am I comfortable with retention being based solely on compensation? Because if that’s the only thing supporting your employee retention, then you also have to ask yourself if you have the right people.” He believes that the most important piece of the retention program is employees’ hopes and feelings about their future. In his opinion, what employees want — and what retention programs need to offer — are two key things: clarity about their future and what they need to do to advance; as well as clarity and some level of control over their path to greater compensation.

The data suggests that advisory firms’ top priorities in the area of retention should be culture and performance measurements — the top two causes of turnover are lack of culture fit and poor performance. In addition, career paths play a role in retention, as the third most common reason for turnover is employees pursuing other opportunities within the industry. These results support Nathanson’s emphasis on clarity around performance, compensation, and career path.

And in this regard, he argues that while many firms know, in principle, what staff needs to do to advance, few have put pen to paper. Clarity means sitting down and documenting culture and performance metrics, so employees can get clarity around both expectations and the potential rewards for meeting or exceeding those expectations. Several of the firms interviewed for this white paper said that they have documented career paths; Lew Alfrest shared that his firm “created a formal career path several years ago, and we talk to our employees regularly about their progression within the firm.”

At The Colony Group, Nathanson says that they have what’s informally called “The Path,” which is a written document — a chart — that documents the advancement requirements for each professional category. He says: “A good retention strategy should go far beyond economics. Giving people more control over their future and clarity around what they can expect for the future allows people to plan for their professional careers.” And a big part of that is development. All of the firms interviewed for this white paper agreed that the firm’s ability to provide education, training, and experience is a key factor in retaining employees.

Access the *Build* guidebook from the **Building High-Performing Teams** program, offering guidance on developing and maximizing human capital by presenting strategies for sourcing talent, onboarding, positioning the new team with clients, and implementing effective team communication.

Go to [Veo>Resource Center>Practice Management>Human Capital Management](#)

Communicate to Improve Retention Efforts

Communication was also cited by advisory firm principals as a key contributor to retention. Ongoing dialogue about employees’ goals and interests is critical to providing the right kind of guidance, as well as new opportunities that keep employees growing and engaged. And it’s another reason that the performance review process is so important.

An effective review process provides multiple opportunities to communicate about many issues: job descriptions convey basic expectations, incentive metrics convey stretch objectives as well as development targets, and every performance conversation offers an opportunity to keep the dialogue open with employees about their future at the firm (i.e., career path). These kinds of discussions are key to sustaining employee engagement over time.

Firms that indicated that they had effective performance reviews were successful across a wide range of activities surrounding communicating performance. But most important, firms that communicate around performance translated that diligence into about 25% higher profitability (*Exhibit 10*).

Exhibit 10: Firms with “Very Effective” Performance Reviews vs. All Others

	Firms with “Very Effective” Performance Reviews	All Other Firms
Profit margins	16%	13%
Tie performance evaluation to compensation	90%	70%
Nonprofessionals eligible for incentive compensation	66%	49%
Defined job descriptions	81%	74%
Defined career path/organizational structure	65%	46%
Individual goals/objectives	84%	53%
Firm goals/objectives	85%	58%

Consider Equity as a Retention Tool

Equity is another retention strategy that goes beyond dollars — and even beyond ownership. Advisory firms need to be cautious about how and when they expand ownership, and consider both quantitative and qualitative metrics in making that decision. But equity participation (i.e., shares without control) can be an effective retention tool to support growth, culture, and competitiveness, as well as retention.

Adam Sheer says that The Roosevelt Investment Group awards equity broadly to key personnel in all departments, not just for retention, but because it helps them attract entrepreneurial people. It also ensures that they have the capabilities and skills to grow. Michael Nathanson says that The Colony Group has more than twenty principals: “While equity technically isn’t compensation, it really is part of our overall compensation strategy and certainly part of our retention strategy.”

Summary

Much of the development and retention challenge is a cultural one. Wherever possible, employees need to have a sense of clarity and confidence about how they can grow professionally and personally, as well as how they can grow their compensation. That means the firm needs to create an atmosphere in which discussions of career and personal development are part of the culture. That ongoing dialogue — together with education and new opportunities — provides the foundation for engaging and motivating employees.

Thus, development and retention programs cannot be haphazard if a firm wants to get the most from its staff, as well as the money invested in compensation, incentives, and benefits. David McKinley says, “If we’re going to hire people and expect them to grow — especially if they are green and not very knowledgeable — then we have to have a plan to develop them.”

That proactive development piece must be firmly in place, as a complement to financially based retention strategies. Otherwise, the firm risks that people will stay for the wrong reasons, or they will be lured away by higher financial incentives elsewhere. Equity and other financial incentives can play a crucial role in motivating and retaining people. But what retains the *right* people for the long term is a supportive culture of opportunity that engages people in their quest for professional and personal development — not just the money.

“A good retention strategy should go far beyond economics.”

—Michael Nathanson, CEO
The Colony Group

Key Takeaways for Establishing Development and Retention Programs

1. Understand What Your Firm Needs

Be strategic about development and retention: make sure that they are tied to the firm's goals, vision, and future business needs. Have a plan to develop your people not only to ensure that they are growing and engaged, but also so that they have the skills you need to grow your business.

2. Learn What Motivates People

Staff are not motivated by money alone. Development and retention programs complement other forms of compensation and are a fundamental building block of the firm's culture; they make staff feel valued, and they motivate employees to "thrive and strive" to deliver value to clients.

3. Consider What Your Staff Wants

What staff want most from development and retention programs are clarity and control — i.e., knowledge about how they can grow and chart their professional future, and what avenues are available to them to positively influence their compensation.

4. Keep the Dialogue Open and Continuous

Make development and retention part of an ongoing dialogue with staff. Talking to them about these issues once a year at review time is not sufficient to keep them engaged, motivated, and on track.

5. Share Knowledge to Build Your Firm

It is important to capture new knowledge and skills within the organization. As staff develop, so should the firm's business processes, workflows, and skills base — mechanisms for sharing new knowledge and expertise are important to bringing the value of development and retention programs to the entire firm, not just specific individuals.

Equity Can Support Retention and Facilitate a Culture of Growth

Firm: *The Roosevelt Investment Group*

Locations: *New York, NY*

AUM: *\$4.4 billion*

Staff: *55*

Structure: *Investment management*

"If we didn't implement retention tools we weren't going to attract the right people, and we weren't going to have the leverage needed to get to where we were going," says Adam Sheer, president of The Roosevelt Investment Group.

When his firm, Sheer Asset Management, merged with The Roosevelt Investment Group in 2002, equity was used as a retention strategy and awarded not just to advisors, but also to portfolio managers and other key employees who came over during that transaction. His concern was having "sufficient infrastructure with which to grow out the firm."

They have developed a system, and commitment to equity participation has continued to this day and grown along with the growth of the firm. Over the past three years, the firm has grown rapidly from approximately \$1.7 billion in total assets under management and advisement to about \$4.4 billion — primarily through acquisition. And equity has been a key part of their strategy for continued growth.

He says: "When I talk to peers who have similar size companies but in other industries, they wouldn't even consider disbursing equity. But I think in our business, which is really a people business, equity participation is critical — especially if you want to

attract and retain talent, and if what you're offering is a smaller, more nimble entrepreneurial firm." For example, in their last merger he believes it was the equity component of the deal that helped them retain key professionals, each with decades of experience. "Frankly, I don't think we would have been able to attract these types of people without sharing our equity," he says.

Equity participation also aligns with their entrepreneurial culture, according to Sheer: "If you want to attract those entrepreneurs who are really going to row in the boat with you, to get you where you want to go, they really need equity. That's what they want, and if they don't get it here, they'll go to a place where they can get it."

The first two principles that drive their equity strategy are culture fit and broad participation: "We believe in finding great talent that's a cultural fit and entrepreneurial people who can really impact the organization. We also believe in doing our best to disburse equity amongst the different departments, whether that's compliance, operations, sales, or portfolio management, etc. So, we think ownership is key."

The third principle, according to Sheer, is that the firm does not sell equity to key employees. He says that there are many key employees who either have it, or it's vesting, or they're being strongly considered for it, but it is not sold. Additionally, Roosevelt has put in place a long-term incentive plan with two tiers: the A shares of the plan act as a profit sharing plan and the B shares have terminal value if there is a liquidity event.

Sheer says that as the firm has grown, it has been focused on "institutionalizing and upgrading many aspects of how we run the firm, including compensation, development, and retention." He believes that equity participation is a critical component that gives the firm a competitive edge — in retaining talent, incentivizing success, building their culture, and giving the firm sufficient infrastructure to grow.

KEY ELEMENTS OF ROOSEVELT'S EQUITY PARTICIPATION PLAN:

- Aimed at multiple strategic targets: retention, acquisition/growth, culture of entrepreneurship
- Broad eligibility: all key personnel across all departments
- Awarded, not sold
- Two-tier structure: the A shares of the plan act as a profit sharing plan and the B shares have terminal value if there is a liquidity event

"If you want to attract those entrepreneurs who are really going to row in the boat with you... they really need equity... and if they don't get it here, they'll go to a place where they can get it."

—Adam Sheer, President
The Roosevelt Investment Group

CONCLUSION:

When dealing with the issue of compensation, industry research data indicate that it is important not to think too narrowly. Competition for top talent is heating up: salaries, incentives, and benefits are all on the rise as advisory firms compete with each other — and the broader financial services industry — to recruit and retain skilled people at every level, especially in the areas of advisory professionals and technical specialists.

The most successful firms in the industry treat compensation as part of an overall human capital strategy that is tied to business mission, vision, values, and client promise. Top human capital firms marry cash compensation (salary and incentives) to specific and objective performance metrics, make sure employees know what those metrics are, and assess performance regularly. They apply incentives broadly, including to nonprofessional staff. They look at benefits as part of an employee's total compensation package, rather than as an isolated cost. And finally, they actively manage development and retention programs so that staff have some level of clarity and control around how fast they can advance professionally and how much money they can make.

Taking a strategic approach to compensation — tying it to the firm's business mission and then managing it proactively — is a process that takes time and attention. And it is a far cry from simply deciding "How much should we pay?" But the data are clear. Firms that do it are rewarded: those that manage human capital in a comprehensive way outperform operationally and financially.

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Key Takeaways on Developing a Compensation Strategy

Be Strategic: Understand the market for the positions you are hiring for, then be explicit and thoughtful about where you want to fall on the compensation scale.

Set Goals and Incentives that Align with Your Business Strategy: Use both quantitative measures and soft priorities like teamwork that foster culture and values.

Incent All Staff: Offer incentives at every level to promote successful behaviors, because everyone contributes to the firm's success.

Use Objective Metrics: Objectivity gives staff a clear idea of what they need to deliver and provides the basis for productive conversations.

Manage Proactively: Don't treat performance reviews as one-off events; review and adjust the compensation program as necessary to align with both immediate and longer-term priorities.

Think Holistically: Compensation should be designed and presented as a total package, as the total cost includes much more than just salary and incentives.

Stay Competitive: Comprehensive benefits packages are the norm in the business, so firms need to take this into account when judging the competitiveness of their plans.

Manage Cost Efficiently: The cost of benefits can be manageable to even smaller and mid-sized firms; and with the right strategies, firms can reduce costs to increase the benefits they offer.

Communicate Regularly: Successful firms communicate regularly about the value of total compensation, which may help drive motivation, retention, and sustained employee engagement.

Be Creative: There is no limit to how creative a firm can be with benefits: first, identify the needs and interests of your staff, then find a unique approach that fits with your culture and business model.

BASE AND INCENTIVE

These make up 70% or more of an employee's compensation and they need to be strategically deployed to get the most from the firm's investment.

BENEFITS

Benefits are on the rise across the industry and contribute to the overall value of an employee's compensation. As such, they can be an important driver of employee engagement and competitiveness.

Key Takeaways on Developing a Compensation Strategy (continued)

Understand Your Firm's Needs: Develop your people not only to ensure that they are growing and engaged, but also so that they have the skills you need to grow your business.

Learn What Motivates People: Think beyond pure economics — development and retention programs focus on building culture and helping employees to “thrive and strive” to deliver value to clients.

Consider What Your Staff Wants: Employees want to know how they can grow and chart their professional future, and how they can positively influence their compensation.

Keep the Dialogue Open and Continuous: Open an ongoing dialogue with staff; talking to them about these issues once a year at review time is not sufficient to keep them engaged, motivated, and on track.

Share Knowledge to Build the Firm: Development and retention programs should benefit the entire firm — use new knowledge and skills to improve the firm's processes, workflows, and skills base.

DEVELOPMENT AND RETENTION

These programs go well beyond just money. Employees care deeply about their future, and they need to feel that the firm does too.

Job Category Descriptions

Professionals

Professionals include positions primarily and directly responsible for client relationship management, advice delivery, or developing new business. In many firms, a number of professional positions are filled by both owner and non-owner employees. These positions range from very experienced advisors with responsibilities for both client management and business development, to less experienced advisors with client advice responsibilities. The industry uses many labels for the advisory positions, depending on the nature of the firm and service. Titles used may include rainmaker, financial planner, investment advisor, financial advisor, service advisor, portfolio manager, relationship manager, or wealth manager.

Dedicated Management Staff

The primary function of professional managers is to manage the business, rather than develop client relationships or serve existing clients. Note that in a significant number of firms, these are functions performed as secondary duties by the professionals. Typical positions in this category include Chief Executive Officer (CEO), Chief Operating Officer (COO), and Human Resources Director.

Technical Specialist Staff

The primary function of technical specialist staff is to support the advisors with plan preparation, technical analysis, research, or other related functions. Technical specialist functions typically have less client contact, perform support tasks, and do not act as the primary relationship manager for clients. Typical technical specialist positions include financial planning specialist, retirement specialist, investment manager, and research analyst.

Support Staff

The primary function of support staff is to support the advisors and technical specialists by performing functions related to plan preparation and technical analysis. Support staff typically do not have client contact and do not provide advice or have responsibility for any decision-making on client matters. Typical titles include support advisor, tax preparer, trader, portfolio administrator, and client service administrator.

Administrative Staff

The primary function of administrative staff is to support the practice. Typical titles include office manager, administrative assistant, internal accountant, network administrator, and receptionist.

About the *Developing a Compensation Strategy* White Paper

This white paper leverages insights gained from the *2011 InvestmentNews/Moss Adams Adviser Compensation and Staffing Study* and interviews with advisors that custody with TD Ameritrade Institutional.

The *2011 InvestmentNews/Moss Adams Adviser Compensation and Staffing Study* draws on data submitted by over 700 financial advisory firms that responded to the survey. Of these firms, 616 met the criteria for a complete and valid survey submission, including the minimum requirements of at least one year in business and \$100,000 in annual gross revenue. Survey questions largely focused on compensation and staffing characteristics, as well as basic financial performance during the 2010 fiscal year. Fielding of the survey took place from April 15 to June 15, 2011, and advisors completed the survey online.

The 616 respondents who met the criteria for a complete and valid survey submission were divided into two groups: top human capital firms and all other firms. The top human capital firms are approximately the top 20% of all firms (117 in total) based on a range of current top human capital practices for managing, developing, and retaining talent. Top human capital firms were required to meet nine of the following eleven criteria:

1. Average effectiveness score of ≥ 3.5 out of 5 on fourteen employee retention factors
2. Top quartile for revenue/staff
3. Clearly defined individual goals and objectives
4. Clearly defined firm goals and objectives
5. Documented job descriptions for all employees
6. Employee awareness of job descriptions, roles, and responsibilities
7. Defined career paths and organizational structure for employees
8. Employee awareness of career opportunities and organizational structure
9. Formal training program in place to train and educate staff
10. Employee performance evaluations
11. "Very effective" or "somewhat effective" performance reviews

Each firm was compared and ranked against the other firms on each of the criteria.

Wherever this white paper refers to “top,” “top-performing,” or “leading” firms, it is referencing that top human capital group.

Some advisors interviewed for this white paper participated in the *2011 InvestmentNews/Moss Adams Adviser Compensation and Staffing Study*. Their role was to share their experience and insights, and provide strategies for potentially improving results in the best practice areas identified by the study. Advisors have not received remuneration for providing testimonials. Advisor testimonials may not represent the experience of all advisors using TD Ameritrade Institutional brokerage services. The advisors mentioned are not affiliated with TD Ameritrade Institutional. Their participation should not be construed as a recommendation or endorsement by TD Ameritrade. More information about the advisors is available on the SEC website (www.sec.gov).

TD Ameritrade Institutional Resources

TD Ameritrade Institutional offers additional resources to help you uncover potential opportunities to service your clients and exceed their expectations.

- **Dedicated Strategic Relationship Consultants:** These focused professionals understand your business and can deliver personalized solutions to meet your unique needs and goals. Call on their innovative thinking to help you create an action plan designed to move your business forward.
- **Roadmap™:** Whatever your business needs, our Strategic Relationship Consultants are ready to help you take your business to the next level. We use an innovative online planning tool called Roadmap to translate your high-level business objectives into action plans.
- **Building High-Performing Teams,** developed in collaboration with Paragon Resources, is a series of guidebooks and resources designed to help you assess, design, build, and lead your human capital resources to maximize your productivity and achieve your business vision.

The series components are as follows:

1. **Assess.** The *Assess* guidebook focuses on helping advisors review their current team and explore the key considerations for expansion.
2. **Design.** The *Design* guidebook offers tips on making decisions about organizational structure, defining roles, crafting job descriptions, assessing current team members, and, if appropriate, beginning the hiring process.
3. **Build.** The *Build* guidebook provides guidance on developing and maximizing your team's human capital by presenting strategies for sourcing talent, onboarding, positioning the new team with clients, and implementing effective team communication.
4. **Lead.** The *Lead* guidebook presents tools you can use to enhance your management and leadership skills to increase the engagement and retention of staff, streamline business operations, manage performance, and plan for business succession.

By reviewing the tools and resources in each of the four guidebooks in this series — *Assess*, *Design*, *Build*, and *Lead* — you'll be able to move through each step of the process in a straightforward, logical fashion. With this strategic approach to building high-performing teams, you'll be able to make sure that you have the right people in the right roles and engaging in the right activities, so that your business can reach its greatest potential.

- **Affinity Services Program:** We have established relationships with more than 100 renowned third-party service providers to bring you the best third-party solutions to help run your business, manage your clients' wealth and maximize your business — all at preferred rates.
- **Equity Management System:** TD Ameritrade Institutional provides qualified advisors with complimentary access to this solution, which can guide advisors through three critical steps of succession and continuity planning: practice valuation, equity management, and support. FP Transitions, an independent, third-party firm, which is one of the nation's leading providers of valuation and succession planning services for the financial services industry, developed the Equity Management System to help advisors assess current and future needs and define a strategy to grow and transition business.
- **Advisor Education:** Advisor Education is an online portal that allows you to browse a comprehensive course catalog and leverage training on demand. The portal allows you to:
 - Access content previously located in various areas across TD Ameritrade Institutional's technology platform in one convenient location.
 - Browse content by subject matter.
 - Select online training on demand — courses are delivered through a variety of channels, from webcasts to self-paced point-and-click modules.
 - Track your employees' learning activities and eventually be able to assign various development paths to others.

This robust platform will be an evolving learning community that will continue to grow as more content and functionality is added in a phased approach. This growth will be driven by your needs. Enhance your expertise and develop the skills of key employees with the help of Advisor Education.

Please work with your TD Ameritrade Institutional Strategic Relationship Consultant to help uncover opportunities and learn how you can help take your business to the next level.

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About the Authors

IN Adviser Solutions

IN Adviser Solutions is a national research and consulting firm that specializes in business consulting to financial advisory firms and institutions. For nearly two decades, their benchmarking studies have been a leading source of market intelligence for advisory firms and industry partners, such as custodians, broker-dealers, service providers, and professional organizations. Today, their experienced team works with clients on a wide range of initiatives, including:

- Research
- Consulting
- Speaking Engagements and Educational Events

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About TD Ameritrade Institutional

At TD Ameritrade Institutional, we never forget that it's your business. We are here to support you in making it thrive. When you work with us, you will get the dedicated commitment of our people, access to a range of resources, and a strategic relationship — all designed to increase your potential and help you achieve your business vision. Our offering is part of what differentiates us. We deliver smart operational solutions, innovative technology, customized practice management, and flexible investment solutions, all with one goal in mind — impeccable service.

We share your belief that being a fiduciary is one of the best ways to serve your clients. As steadfast advocates for independent advisors, we continually speak out to ensure that your needs and the needs of investors are always considered within the regulatory environment. We consistently place your needs at the foundation of our business decisions. You can count on TD Ameritrade Institutional to put you first, so you can do the same for your clients. When you choose to work with us, you'll see how deeply we are committed to your success.

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