

How DOL Is Changing Sign-On Bonuses and Other Indie BD Procedures

The wirehouse channel is cutting back dramatically on upfront money offered to join their broker dealer. Also of note is the recent case of Merrill Lynch, which is trying to grow without offering traditional sign-on bonuses.

Both trends are a result of DOL rules, and DOL rules are having an impact on the independent broker-dealer channel, but not in ways you may think.

Of the 3,902 FINRA member firms (as tracked by Fishbowl Strategies in late February), approximately 25% offer some form of forgivable note (or sign-on bonus) to aid in the expenses and disruption of a broker dealer switch.

Much of this is concentrated in the top 50 independent broker dealers by revenue.

A profitability shell game is currently going on, as profit centers such as ticket-charge markups are sacrificed while advisory administration fees increase. Recruiting has been impacted to a degree, primarily in the form of recruiter layoffs at several broker dealers.

Sign-on bonuses have not changed dramatically, with the exception of Jackson National broker-dealers National Planning, SII, Invest and Investment Centers of America.

Advisor Profitability

Historically, Jackson National broker-dealers offered sign-on bonuses up to 40% of an advisor's trailing-12-month gross dealer concession.



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With a seven-year note period tied to the sign-on bonus, if you stick around for seven years, you would owe nothing back. However, if you leave during the seven-year period, you will owe a portion of the bonus back to the broker dealer.

At the beginning of 2017, these bonuses dropped to 10–15%, possibly 20% if your practice is especially profitable.

This brings up another DOL-influenced trend: bonuses increasingly based on profitability of an advisor's practice rather than based solely off gross dealer concession.

Low and High Profitability Books

You may wonder, what constitutes a low profitability book of business versus high profitability?

If your book is comprised of mutual funds or variable annuities held direct at the product companies, you fall under the low profitability category. This is because broker dealers have numerous profit centers in assets being held in brokerage accounts, but these assets are held away from brokerage accounts—and hence the low profit.

Stock and bond business with margin accounts or advisory held in brokerage accounts fall under the high-profit category, because the broker dealer makes mark-ups on the ticket charges, margin spreads, markups on the advisory administration fees and often markups on third-party money manager management fees.

If you are a hybrid advisor holding your advisory assets at TD Ameritrade or Schwab, no surprise, you will fall under low profitability because the broker dealer only makes money off the payout grid.

As an example, an advisor with \$500,000 of gross dealer concession with a book comprised of mutual funds and variable annuities held direct, and advisory assets at TD Ameritrade may only be offered a 10% sign-on bonus. An advisor with all assets held in brokerage accounts with a sizeable percentage in advisory may be offered 20% or more.

Forgivable Notes Not Tied to Production

Another change spurred on by DOL is forgivable notes based on time only, with no production requirements required by the note.

For example, previously, an advisor might have been required to maintain 80% of the production amount on which the note was based.

However, FINRA now believes that having a production requirement tied to the note has the potential to be a conflict of interest: Did you transact that business for your client in order to hit a note production requirement or because it was proper for your client's needs?

Declining Annuity Sales

Another likely reason why we are seeing Jackson National broker-dealers lowering sign-on bonuses is the recent decline of variable annuity and fixed index annuity sales.

According to the global research and consulting firm LIMRA, fixed index annuity sales were off 13%, while variable annuity sales declined 8% from the prior year in the first quarter of 2017. Insurance-owned broker dealers are rarely profitable endeavors and if they do manage to be profitable it is most always marginal, so when the parent company's primary profit center (annuity products) is compromised, these BDs resort to cost cutting and/or consolidation.

Sign-on Bonuses & Consolidation

Cutting back on sign-on bonus amounts is just one way broker dealers cut expenses. Back office consolidation is yet another. (See [“BD Back-Office Consolidation: Profit Bonanza or Service Boondoggle?”](#))

In 2016, Jackson National centralized recruiting to Denver with the hiring of Jay Vinson. This move resulted in recruiter lay offs, including long-standing recruiter K.T. Fereday.

Jay was hired December 2016 but exited his position unexpectedly in March 2017. Besides the short-term instability in management hires causing some concern, there is likely the expansion of centralized back-office services provided by the Jackson broker-dealers to Denver and/or to one of their broker-dealers via the merging of broker-dealers of similar type as another potential cost-cutting measure.

Meanwhile, insurance companies with broker-dealers are getting skewered by a four-pronged combination of higher DOL expenses, lower profits, continued low interest rates and/or future stock market corrections that derail insurance company actuarial assumptions, and the decline of VA/FIA product sales.

These multiple dynamics could very well perpetuate a new wave of insurance broker-dealers being sold, especially for those insurance companies highly dependent on variable annuity and fixed index annuity sales. (I discussed this earlier in [“The Decline of Insurance Owned Broker Dealers.”](#))

As the costs of DOL rules become more transparent, the independent channel may see a decline in sign-on dollars offered across a broader segment, but for now no big changes are occurring.

For the IBD channel, you rarely see an independent advisor changing broker-dealers for a sign-on bonus, although that has traditionally been a primary catalyst for wirehouse and regional firm advisor movement.