

TIME TO RETHINK YOUR FIRM'S COMPENSATION PLAN?

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As we enter fall and the fourth quarter, you may be pondering a change to your compensation structure for next year. Although it is extremely critical to develop a salary plan that is profitable for the firm, I suggest considering the broader business context first when making changes.

This involves reviewing the company's strategic priorities, the product and service mix and the approach to finding new business and retaining existing clients. Analyzing these elements will help to determine which incentives and pay rewards should be offered.

At its core, a compensation plan can be a recruiting tool, a retention tool and a communication tool for expressing what's important to the organization. As a tool, compensation should reward employees who live and breathe the culture of your firm - the vision, values and strategies that make your firm different from your competition.

Beyond reflecting the core values of your firm, a compensation plan needs to be effective. I suggest pondering the following questions:

- Is your compensation plan competitive?
- Are your compensation levels affordable and equitable?
- Does the plan reward individual performance, behavior and key contributions to the firm?
- Does the plan reinforce teamwork and cohesiveness?
- Do you tie compensation to the expectations of an individual's role and position?
- Is the individual's compensation aligned with the goals and key initiatives of the firm?

TARGETING MILLENNIALS

Your compensation plan needs to engage and motivate your current employee population, and attract future employees.

This means moving from a traditional benefits-based plan to a more competitive values-based plan to ensure you're engaging the millennial generation.

Misunderstanding the millennial employee could have a devastating effect on a business, according to new research from insurance brokerage Hub International Limited. As the largest generation, millennials present a growing influence in the workplace. This is what the survey found:

- Over 60% of respondents ranked competitive base pay as their No. 1 factor for staying with their current employer. Over 80% ranked competitive base pay first, second or third. Survey respondents ranked merit increases as least important.
- While competitive base pay was the top factor, 45% ranked career opportunity, interesting and challenging work, and incentive opportunity as first, second or third.
- Almost 50% of survey respondents expect to change jobs within the next six months because of a lack of competitive base pay, career opportunity or interesting work.
- Most survey respondents (92%) agree that competitive base pay and being paid for the value they bring to the

company are important. The majority (90%) indicated that understanding how their job impacted the success of the company was very important (56%) or important (34%).

- 75% of respondents said incentive or bonus programs fail to use individual performance results in calculating payouts.
- Most advisory compensation plans provide base salary, incentives, paid time off or vacation and such traditional benefits as a retirement plan and medical and life insurance. Largely, these plans have been created by the founder or owner, who is most likely of the baby boomer generation. Variable or nontraditional benefits are what millennials deem as competitive, such as flexible work schedules, telecommuting or working from home, subsidized training programs, maternity/paternity leave, subsidized meals, bonus days off, wellness benefits and college tuition/assistance programs. Firms should look to understand what motivates millennials and best serves their compensation desires in order to attract them as prospective employees.

COMPENSATION 101

Base salary is fair compensation for an employee's roles and responsibilities. Your plan should define a salary range for each position based on the value of the position to the firm and the market value of the position. You should regularly revisit the salary range and adjust as needed with market changes.

Here are a couple of caveats to keep in mind: move an employee within the salary range only as her job size, responsibilities and skill sets change. Beware of cost of living adjustments, as they increase a firm's fixed costs and are not tied to measurable results that have a positive impact on the firm. Most employees are not actually motivated by cost of living adjustments and tend to regard them as an entitlement or a guaranteed benefit.

I also caution against paying base salaries that are below the industry average in exchange for offering more in profit sharing or retirement benefits. While this approach may be motivating for your highly compensated staff, it can lead to turnover in your support staff or entry-level employees.

In contrast to base salary, incentive compensation is variable pay for meeting or exceeding goals that are tied to the overall strategy and vision of the firm. Incentives illustrate to employees the financial partnership between their individual efforts and the results of the firm. Incentive plans are not a replacement for performance management and should not be used to force a certain behavior, replace active and open communication, or fix a firm's culture.

Advisor incentive goals are usually based on an individual's total revenue production: new revenue and total revenue that is managed for existing clients. In addition, advisor incentives should include client production, new clients gained through referrals and the retention and satisfaction of existing clients.

Here are examples of such goals: In client retention, the advisor must retain at least 95% of his clients during the year. In terms of new revenue, a reasonable expectation is for the advisor to obtain \$50,000 of new annualized revenue from external sources and referrals from clients personally sourced to the firm during 2017.

SUPPORT STAFF

Support staff roles tend to be more difficult to incentivize, as these positions have less impact on the client and results can be harder to measure. But here are a few examples of potential projects or initiatives for support staff that can be measured: client segmentation projects, client events, marketing projects, technology projects, client service delivery improvements, developing new skills and attaining certifications.

Team incentive metrics can help motivate and reward groups of employees who are responsible for accomplishing

larger firm initiatives. Examples of such team initiatives are selecting and implementing a new software system; updating the firm's website; taking part in social media campaigns, client newsletters and other communication projects; and moving to a new office or expanding the current office space.

The key concept here is that the members of the defined team are eligible to receive the incentive as long as the goal is achieved. This motivates the group to work together to accomplish the project within specified time frames.

Finally, whether you have decided to completely overhaul your existing plan or just make some adjustments and tweaks, once the plan is complete, ensure that you create a process for tracking and monitoring the results to avoid any problems in determining the final payouts.

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