CONTRACT

Are you thinking about a career in financial services? Are you currently in the industry and have questions? After years of recruiting, training, and coaching financial professionals, I have concluded that both inexperienced and experienced advisors want significantly more information on the following: Their **Contract**, **Training**, and **Culture**.

Each financial services **Contract** is going to be unique. **Contracts** can be offered from a variety of institutions ranging from banks, to investment firms, to insurance companies. **Contracts** can be extended from independent shops, career agencies, and/or combinations of the two. Without diving into each **Contract**, there are several common key characteristics. I recommend that anyone looking at a career in financial services get clarity on the following areas of your contract: ***Compensation, Costs, and Client Data***.

Compensation

You hope your compensation is competitive to the rest of your industry but do yourself a favor- double check. Investment firms will sometimes refer to a "grid". In fee based advisory, advisors charge a fee, or "wrap fee" to hold someone's account(s). The fee charged comes out of the client's account balance, but it is *not* what is paid to the financial professional. That amount hits a "grid", and the advisor can be paid anywhere from 0-100% of the fee that is charged to the client. Some of the bigger firms may "top out" their "grid" to the advisor at 40% or 50% of the percent charged. While other firms start the advisor at 50% "topping out" at 90% or more. The remaining money, or left-over portion from the "grid", stays with the firm.

In the insurance arena, there are two simple ways to look at compensation: immediate or long term. In other words, a contract may result in an insurance professional making more money up front on the sale of a product with little or no "renewals", trails, or residual compensation. Alternatively, an insurance professional can earn less money up front with more residual or renewal compensation long term. The first example could lead to more transactional outcomes and turnover. The second example could lead to more of a long-term relationship with the firm, client, and advisor.

A very important factor in compensation is a concept I refer to as ***Direct vs Indirect Compensation.*** This relates to your compensation or your money's journey. The compensation from the sale, or "wrap fee", of an investment or insurance product comes from an institution. For example, a large broker dealer or insurance company. ***Direct Compensation*** is when the compensation goes directly from that institution to your wallet/bank account. By contrast, ***Indirect Compensation*** is when the compensation "stops off" at a middleman. A financial professional could work at a firm, earn compensation, and have his/her compensation "stop off" at the firm's or manager's bank account first. Then, the advisor could get paid a different or lessor amount of money. This is very common. Often, ***Indirect Compensation*** is used to extract costs. Financial professionals often complain that their compensation was not clearly explained to them. Firms oftentimes leave out critical information in the recruiting process about the advisor's compensation. They leave out costs, such as the phone bill, paper copies, rent, parking, and technology which would be subtracted from the advisor's compensation. This could lead to several predicaments. Not the least of which is an upset advisor. If the financial firm, manager, or both are not financially responsible, your compensation check could "bounce". Also common is a "negative" paycheck. If an advisor's paycheck is less than the costs he or she is expensed, the advisor could end up owing money back to the firm or manager. In an ***Indirect Compensation*** model, it can be very difficult to fully understand your compensation.

Costs

As a financial professional, some costs can be expected. Some costs can be fun, like taking a client to lunch. While other costs are just necessary like pens, paper and rent. Here is where you must be careful. Some financial services firms have "allowances", or compensation mechanisms designed to offset the costs passed down to the advisor. As an example, when an advisor earns compensation, the manager or the firm may also earn an "expense allowance". This additional compensation may be paid to the manager to cover the "expense" of pens, paper, and/or rent. Unfortunately, it is not uncommon that firms, while receiving an "expense allowance" or any additional compensation, continue to pass on costs to the financial professional. The firm or manager may take these costs right out of your ***Indirect Compensation***. Many would consider this double dipping.

Here is an example, let's say a financial professional is at a firm that passes the rent cost on to their advisors. The firm gets an "expense allowance" to cover the rent, but the manger/firm is less responsible with those dollars. A pandemic shuts down the office and business slows drastically. The manager/firm could choose to increase the costs passed on to the advisor to make up for any losses due to the pandemic. If the advisor is in an ***Indirect Compensation*** model, he or she may have no choice or may not be aware, that the costs have increased.

In a ***Direct Compensation*** model, if this example where to happen, the additional costs could not be taken out of the advisor's paycheck. Remember, in ***Direct Compensation***, the compensation does not "stop off" at the firm's/manager's account.

Client Data

You are a business owner; expenses are part of being a business owner. If you were starting a pizza business, your costs or expenses would buy you things like a pizza oven, furniture, or kitchen utensil. If in the future you wanted to sell those assets, or leverage those assets- you could. Be leery of financial firms that tell you that their costs are part of being a business owner. This is a recruiting tactic. You may just be a way for the firm to reduce their costs.

What should you be buying, owning, or building in financial services? What is the most valuable asset? Your ***Client Data***. Remember, ***Client Data*** and clients can be bought and sold just like anything else.

Let's take a quick look at the status quo. Let's say you joined a financial services firm and every day you were told to make hundreds of "dials". Let's also say that if you didn't make those dials you could lose your job. Let's continue and say that you are told when to arrive, when to leave, and also how many clients you must source to keep your job. Not forgetting, that at all times, you **must enter your client's information into the firm's data base**. Does this scenario sound more like an advisor or an employee? Here is a crucial piece, if you decide to leave, get fired, or retire what happens to "your" clients and the information you entered into their database? Do you own any of it or does the financial services firm own it?

Your **Client Data**, which is comprised of the phone numbers, social security numbers, addresses, emails, and bank account numbers is the real value of your financial services practice. If you do not own any of it, are you really a financial professional or are you just an employee? I often ask candidates, do you want to be a financial advisor… a *real* financial advisor, or an employee? Do you want to work hard to build a "book of business" for yourself or do you want to work hard and grow the bank or firm's "book of business"?

The owner of the **Client Data** is an important element in the financial services contract. Be leery of any firm or institution that requires you to load all your contacts and client information onto their CRM.

Understanding your **Contract** is the first step on your way to a healthy financial services career. Remember these three key components, ***Compensation, Costs, and Client Data.*** Get clear on the basics by asking as many questions as possible. No **Contract** is perfect but do your best to align your **Contract** with your goals.

Best of luck out there.