ARE YOU GETTING THE BEST BROKER-DEALER PAYOUT RATE?

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A broker-dealer payout rate is the percentage of fees or commissions financial professionals receive from the revenue generated by their services. Payout rates vary by firm and business model. Here are seven key things to consider when evaluating a firm's payout schedule:

1. **Payout Percentage –** most firms have a payout percentage or "grid" schedule that ranges between 20-95% depending on several factors. These factors include things such as total revenue (often the greater the revenue the higher the payout) and whether sales support is provided (if the firm provides office space and administrative support, for example, its payout will likely be less than if the financial professional pays for these things out of pocket). It's important to get the grid payout schedule of any firm in writing.

2. **Level vs. Stepped Payout –** payout rates can be level from the first dollar of revenue or can increase based on hitting certain tiers of revenue. For example, one firm might pay out 80% regardless of how much revenue you produce. Another firm might pay out 80% on the first $250k of revenue, 85% on revenue between $250K-$500K, and 90% on revenue over $500K.

3. **Prospective vs. Retroactive Payout –** when payout rates are tiered based on revenue, it's important to know that once a new tier is reached whether the payout rate is prospective (higher rate paid on the next dollar earned) or retroactive (higher rate paid out retroactively back to the first dollar earned).

4. **General vs. Product-Specific Payout –** some firms apply their payout schedule to all products and services universally. For example, regardless of whether the revenue in question comes from a fee or a commission, it has the same payout rate. Other firms have product specific payouts. The payout rate for fee-based solutions might be 80% while the payout rate on annuities might be 90%. It is very important to understand whether a firm's payout rate schedule is generally applied to all revenue earned or varies based on the underlying products or services.

5. **Individual vs. Aggregated Payout –** a key difference in payout rates when examining tiered payout grids is whether the revenue is tracked based on an individual advisor's book of business or the entire firm. For example, if a firm has five advisors and each of them brings in

$500K of revenue, will the individual advisor’s payout tier be based on $500K of production or the $2.5M aggregate production level?

6 **Other Fees –** while payout is key in determining how much a financial advisor gets paid, understanding all the fees a firm charges is essential. A financial advisor should be paid more based on how much money they net vs. gross from their firm. For example, some firms have high payouts but also have high fees. So, while the payout rate appears high, the effective payout rate is lower than other firms that might appear to have a lower payout rate. It is important to get a written list of all the fees a firm charges. Different firms call the fees by different names, but they include things such as affiliation/membership fee, technology fee, errors & omissions insurance, asset management program fees, licensing fees, registration fees, etc. Some fees are annual while others are quarterly or monthly. Annual fees can range from $1,000 to $50,000 or more in some instances.

7 **Growth Opportunity –** knowing a firm’s payout rates and fees is important as a financial advisor, but most of this analysis assumes your business size as it exists today. It’s important to evaluate which firm will help you grow your business in the future. What services do they provide for their payout retention and fees? How will these services help you attract new clients, expand capabilities, and retain existing clients? A firm that has a lower payout but can help you double your business might be a better partner than a firm that simply offers the highest payout.

As a financial professional, the most important step in comparing firm payouts is to get the terms in writing from an officer of the company. A lot of salespeople make promises they cannot keep. Take control of your business by ensuring that you understand the economics of the deal in writing so there are no surprises.