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Financial Advice Industry is Getting Younger as More Firms Invest in the Next Generation, TD Ameritrade Institutional's FA Insight Finds

More Advisory Firms Are Looking To Hire Graduates For Client-Facing Roles, Yet Many Still Lack Solid Succession Plans

JERSEY CITY, N.J., Aug. 9, 2017 – The financial advisory industry is getting younger as more firms hire recent college graduates to fill client-facing and revenue-generating roles, according to the ***2017 FA Insight Study of Advisory Firms: People & Pay***, an industry benchmarking report from TD Ameritrade Institutional.[1]

The latest *People and Pay* found that 31 percent of firms are targeting recent college graduates for revenue-generating roles. The median age of lead advisors has slipped by three years to 47 since 2015. And while many graduates emerge licensed and credentialed, they are less productive than experienced investment advisors with an existing client base.

"Advisors are reinvesting in their future, opening their doors to the next generation and pursuing a range of strategies to attract and develop human capital," said Vanessa Oligino, director of business performance solutions at TD Ameritrade Institutional. "The challenge for firms is to communicate the benefits they can offer, promote the growth prospects of a financial planning career and structure an organization that can help these new advisors develop and contribute to long-term growth."

Advisory firms are optimistic about growth and "help wanted" signs are plentiful. The median firm expects to have seven full-time-equivalent employees by the end of 2017, up from five just two years ago. And while advisors said the pace of client growth slipped to 6.4 percent in 2016, that growth rate is still slightly above-average for the nine-year history of the study.[2]

The industry overall remains healthy with firms reporting a median of 13 percent growth in assets and 6.7 percent revenue growth. Encouragingly, advisors project stronger client growth in 2017.

Casting a Wider Net

That said, good help may be getting harder to find. Industry research[3] has shown that a wave of baby boomer retirements would likely outpace the expected arrival of young advisors, resulting in a shortfall. The FA Insight study suggests that this talent gap may now be making its presence felt, the study shows.

More than two-thirds of firms reported that hiring revenue-generating roles – lead advisors, associate advisors and business developers – is becoming increasingly challenging. As a result of this scarcity, more firms are outsourcing, forming strategic partner relationships and casting a wider net for talent.

Indeed, six out of 10 firms have realized labor savings as a result of some form of outsourcing. In addition to outsourcing compliance and back-office functions, many firms are using third parties to offer additional services, such as tax preparation and insurance, even if they advertise these services as client offerings.

The study also found that firms are incorporating a range of benefits and non-cash compensation, such as flexible work schedules. Firms also offer professional development, remote work options and leaves of absence. A key offering for younger advisors is a clear career path and the availability of mentoring.

Despite the high demand for talent, median lead adviser pay declined at an annual rate of 7 percent to $168,500 over the past two years. Median pay for support advisors, though, rose by an annual rate of 6.2 percent since 2015.[2] Both trends reflect the increased hiring of younger, less-experienced advisors.

What's the Plan?

Long-term organizational planning, the study shows, is what separates the standouts from the rest of the herd. Just 19 percent of advisors have a documented plan for the future firm they want to build, proactively thinking about hires and positions that can handle growth, *before* those employees are needed. Too often, firms scramble to make hires only after expansion creates service and operational challenges.

One thing that hasn't changed in two years: an absence of formal succession plans, the need for which only grows more critical as the ranks of advisers nearing retirement swell. The share of firms with an owner three years or less away from retirement increased from 7 percent in 2015 to 12 percent in 2017. According to the latest study, only 37 percent of advisory firms said they have a viable plan. The rest either don't have a plan or have plans with serious flaws, such as the lack of deal-financing details or no named successor.

Most firms favor home-grown successors. Nearly one in five firms brought on a new primary owner in the past two years, though arguably this is not a fast-enough pace to alleviate the growing need.

"Choosing a successor can be very difficult," said Oligino. "In many cases, advisors are worried about taking care of clients they've had for decades, and of their staff, some of whom are like family. Founders want to be absolutely sure they're leaving their business in good hands and so they're reluctant to pull the trigger."

To Learn More

TD Ameritrade Institutional clients can download a full copy of *People and Pay* by visiting our online Education Center through Veo. Other advisors can visit fainsight.com or call us at 800-934-6124.

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The *2017 FA Insight Study of Advisory Firms: People & Pay* draws from data received from 388 financial advisory firms that responded to an online survey fielded between Feb. 2 and March 30, and that met our standards, which include a minimum $150,000 in annual revenue and being in business for at least 12 months. Responses were screened for data accuracy utilizing automated and manual review methods. Where discrepancies were found, follow-ups were conducted with firms to clarify their information.

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[1] TD Ameritrade Institutional is a division of TD Ameritrade, Inc., a brokerage subsidiary of TD Ameritrade Holding Corporation
[2] The 2017 FA Insight Study of Advisory Firms: People & Pay
[3] Cerulli Associates, *Advisor Metrics 2016*

Source: TD Ameritrade Holding Corporation