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BofA to Revamp Merrill Fees

The planned fee changes have upset some of Merrill's 14,000-plus advisers

By CORRIE DRIEBUSCH

Bank of America is revamping fees at Merrill Lynch that could trigger fee increases by as much as 50 percent for some of its managed account customers. Corrie Driebusch explains the move, which also has Merrill's account managers upset. Photo: Getty Images.

Bank of America Corp. plans to raise fees for thousands of customers at its Merrill Lynch brokerage arm as part of an overhaul of the way it charges for its account-management services.

Some customers with so-called managed accounts at Merrill—or those accounts that command a flat fee—may end up paying as much as 50% a year more to have their money managed, according to a new rate schedule distributed to Merrill advisers and obtained by The Wall Street Journal.

Rising Fees

Merrill Lynch is overhauling its fees, leading to higher annual costs for some clients

	CLIENT A	CLIENT B
Amount in account	$400,000	$3 million
Fees before	$4,000	$16,500
Fees after	$5,600	$25,500
Percentage change	▲40%	▲55%

Note: Fees are based on a client invested only in Merrill Lynch Personal Advisor equities
Source: Merrill Lynch documents
The Wall Street Journal

The planned fee changes have upset some of Merrill's 14,000-plus advisers—known as the "thundering herd"—who are concerned that higher costs may drive clients away and reduce their ability to charge less to their best customers.

"It takes away all the pricing flexibility we had before," said one Merrill adviser in the mid-Atlantic region.

Advisers will have until the end of 2015 to change their fees.

The increases come amid a $100 million platform overhaul at Merrill that is designed to make it easier for advisers to manage their clients' accounts and build portfolios, according to the firm. As part of that change, which brought together five separate platforms, Related Articles

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Merrill also unified its fee structure, setting minimum fees based on the amount of money a customer has invested with the firm.

While the new structure means that fees for some clients may rise, some clients with accounts across several platforms may see a decrease, according to a Merrill executive.

A spokeswoman for Merrill said fee changes won't be automatic, and there is some room for negotiation.

"Clients have the option of using the new single platform and will sign a new agreement that will include an agreed-upon fee," the spokeswoman said in an e-mail. "That fee will reflect the full value the client places on the overall advice and service delivered by the adviser and firm."

REUTERS

Bank of America plans to raise fees for thousands of customers at its Merrill Lynch brokerage arm. Pictured, a Merrill Lynch office building in Singapore.

The platform revamping comes as Merrill and its rivals are steadily losing market share to other wealth-management channels. Research firm Cerulli Associates estimated the big brokerages' share of retail-brokerage assets will shrink to about 34% by the end of 2014 from nearly half before the recession.

The platform, internally called Merrill Lynch One, combines five menus, known as managed-account platforms, from which advisers select stocks, bonds, mutual funds and a variety of other investment products.

More than one million Merrill clients have some kind of managed account, according to the Merrill executive.

Clients with managed accounts aren't charged per transaction, as on traditional brokerage accounts. Instead, they pay a flat fee, usually a percentage of what they have in the account. The schedules work on a sliding scale: Clients who have more money in an account are charged a smaller percentage than those with a smaller balance.

Like many of its rivals, Merrill has been encouraging the use of managed accounts over traditional brokerage accounts, in part because revenue from flat fees is steadier than that from commissions on transactions.

The main increases will be felt by clients with money in a platform known as Merrill Lynch Personal Advisor, or MLPA, which has some $152 billion under management, or almost a third of all client money on managed platforms.

The current fee schedule for MLPA's equities section sets a minimum fee of 1% for clients whose accounts hold up to $1 million and 0.65% for accounts of $1 million to $2 million.

Under the new schedule, which uses a more precise scale, the minimum will be 1.6% for accounts up to $250,000, 1.4% for $250,000 to $500,000 and 1.3% for $500,000 to $1 million. For $1 million to $2 million accounts, the minimum is 1%.

For example, a client with a $400,000 account, and all of it in equities on the MLPA platform, would see his or her minimum fee rise from $4,000 to $5,600 yearly. The fee for a client with $1.5 million in such an account would rise from $9,750 to $15,000 yearly.

Currently, minimum fees for the managed-account platforms are based solely on how much a client has in that particular account. Under the new single system, the unified fee will be calculated based on all of the client's holdings with Merrill Lynch, including managed accounts and brokerage accounts, as well as Bank of America deposits.

Many clients have more than one account, so adding up the balances could result in a more favorable fee. Still, many advisers tend to favor one account platform over others, and some use one platform exclusively. Among the reasons the MLPA platform is popular for advisers is the low fee schedule, which they can use to keep clients happy or attract new ones.

If a client currently pays more than the set minimum fee, an adviser isn't required to reduce their fees, advisers said. In fact, advisers have a strong incentive not to do that: Each is paid in direct relation to the revenue he generates for the company. Many set fees above the minimum, when they feel they can.

Advisers can in some cases charge a fee below the minimum but typically then must agree to a reduction in their own compensation.

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