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COMPENSATION

Bailed-out banks paid billions in bonuses last year, study shows

The report from the New York attorney general heightens pressure to rein in Wall Street pay. The House votes today on a bill that would let shareholders vote on pay packages. Many doubt it would help.

By Walter Hamilton

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Reporting from New York — Citigroup and Merrill Lynch lost more than $55 billion combined last year, adding to the massive wreckage on Wall Street that took the nation's financial system to the brink of collapse.

Yet they were among nine big banks that combined paid out more than $32 billion in bonuses -- even as the banks took in $175 billion in taxpayer aid to weather the storm, according to an analysis that provides one of the most comprehensive looks ever at Wall Street pay.

Nearly 5,000 people received bonuses of $1 million or more amid the worst financial crisis since the Great Depression, according to the report by the New York attorney general's office, released Thursday.

"When the banks did well, their employees were paid well," the report said. "When the banks did poorly, their employees were paid well. And when the banks did very poorly, they were bailed out by taxpayers and their employees were still paid well."

New York Atty. Gen. Andrew Cuomo launched the compensation study as part of a larger review of the causes of last year's financial crisis. Wall Street's pay structure is seen by many as a leading culprit, encouraging traders to make risky bets to earn lavish bonuses.

To help rein in such practices, the Obama administration has proposed a pay reform bill that goes to a vote in the House of Representatives today.

If any more public outrage is needed, the Cuomo report supplies it. It notes, for example, that Citigroup Inc. and Merrill Lynch & Co. paid out nearly $9 billion in bonuses combined despite their huge losses and also received $55 billion in federal bailout money.

At Goldman Sachs Group Inc., which had the highest average pay at slightly more than $160,000 per employee, the top 200 earners took home bonuses of almost $1 billion combined. The top 14 people got more than $143 million, and 212 got $3 million or more each.

Wall Street defended its steadily rising pay throughout the bull market by saying it was linked to firms' ballooning profits.

From 2003 to 2006, for example, compensation at Bank of America Corp. soared from $10 billion to more than $18 billion, the report noted.

"Yet, in 2008," it said, "when Bank of America's net income fell from $14 billion to $4 billion . . . compensation payments remained at the $18-billion level."

Rep. Edolphus Towns (D-N.Y.), who is investigating the $700-billion Troubled Asset Relief Program, created to bail out the financial industry, called the findings "shocking and appalling."

"Companies that only months ago were facing bankruptcy and sought the help of the federal government are now paying out billions in compensation -- and in some cases without reimbursing taxpayers," said Towns, chairman of the House Oversight and Government Reform committee.

"This egregious behavior proves that Wall Street still doesn't get that times have changed and the old way of paying executives is long gone."

The House pay reform bill would give U.S. regulators the ability to ban pay arrangements at large financial companies that would encourage "inappropriate" risk-taking.

Critics say the financial industry's salary and bonus plans have encouraged managers, traders and other players to take such risks by putting an emphasis on short-term performance, even if that has meant taking outsize risks.

The government stayed out of it -- until the financial system nearly collapsed and taxpayers' money had to be used to shore up hundreds of firms.

Still, it's unclear exactly how banking regulators and the Securities and Exchange Commission would judge when a pay plan could fuel "inappropriate" risk-taking.

Another key component of the bill is a so-called say-on-pay rule that would give shareholders the right to vote on corporate pay packages. Skeptics, however, question whether the measure would reduce compensation or even prevent it from continuing to skyrocket.

Say-on-pay votes would be nonbinding, would take place months after compensation is handed out and wouldn't force companies to alter the payouts.

perks." But it passed anyway, by almost a two-thirds vote.

The company defended Jha's pay.

"Mr. Jha's primary incentive is to drive future performance and create value for all Motorola stockholders," the company said in a statement. "His compensation package is heavily weighted on incentives with almost half (42%) tied to stock options. He also voluntarily agreed to forgo any guaranteed cash bonus for 2008 and reduced his 2009 base salary by 25%."

Even supporters of say-on-pay acknowledge its shortcomings and say it would make only a minor dent in the years-long effort to restrain corporate paydays.

"It's not going to cause a huge revolution in pay," said Paul Hodgson, a pay expert at Corporate Library, a research firm.

"Its aim is not necessarily to reduce pay or cap it or even limit the growth in pay."

Still, he said, say-on-pay is a step forward because it forces companies to consult investors about compensation, something they should do anyway but don't.

Say-on-pay has been effective, proponents contend, in linking pay to performance in countries such as Britain, where it's been in place for several years. That has limited egregious payouts at deeply troubled companies, they say.

"While it's no magic bullet, it's clearly driven pay closer to performance," said Stephen Davis, executive director at Yale University's Millstein Center for Corporate Governance and Performance.

Opponents say it doesn't do even that, contending that say-on-pay gives the illusion of reform without accomplishing anything.

"It's not what it's cracked up to be," said Brian Foley, a pay expert in White Plains, N.Y. "There is a smoke-and-mirrors aspect to say-on-pay that makes it sound like it's more than it really is."

Some large institutional investors, such as mutual fund giant Vanguard Group, have consistently voted against having say-on-pay policies because they believe them to be ineffective.

Executive pay "is a subject about which we care a lot," said Glenn Booraem, the head of Vanguard's corporate governance program.

"We're just not certain that this is the mechanism to drive change."

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