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POLITICS & POWER THE ECONOMIC CRISIS

To those who now follow the company's S.E.C. filings, an 8-K on September 22, 2008, shortly after the government's first injection, of \$85 billion, was of interest. About 130 executives would be given retention awards. The specific award to be granted to one Jay Wintrob was noted, since Wintrob is one of the public company's five top-earning officers, for whom compensation details must be disclosed. Wintrob was to receive \$3 million. He is A.I.G.'s V.P. of retirement services. His total 2007 compensation was \$7,632,352.



Junket Bonds: A.I.G.'s new, \$1-a-year C.E.O., Edward Liddy, and predecessor Martin Sullivan, who got \$35 million for 2006 and 2007.

In a letter, Cummings asked A.I.G.'s new C.E.O., Edward M. Liddy, to explain the 130 retention awards. On December 5, Liddy replied, noting that A.I.G. intended to sell businesses that made up 65 percent of the company—in order to pay back its loan from the government—and that keeping key employees of those businesses was crucial to their value. Helpfully, he mentioned that the pool of recipients had since grown to 168, and that the retention awards ranged from \$92,500 to \$4 million. Days later, reporter Hugh Son of Bloomberg News broke an astounding story. According to sources inside A.I.G., the company planned to bestow retention awards not just on 168 employees but on 2,000, who had been advised to keep their awards secret. If they discussed them with anyone but their families and financial advisers, they would lose them. The Bloomberg story noted that as many as 7,000 A.I.G. employees might receive retention awards.

Cummings was livid. "A.I.G. came to the U.S. government and said they were about to go out of existence," he fumes. "They were on the respirator and the plug was just about out of the wall. None of them would be employed if it were not for the U.S. government and the taxpayers of this country." And here was A.I.G. dispensing public money—\$481 million was the latest figure Cummings had gleaned—for secret bonuses? A.I.G.'s Ashooh says the final number of retention-award winners will more likely be about 5,000, receiving about \$600 million in all. He does acknowledge that this doesn't include the roughly 380 employees of A.I.G.'s now moribund financial-products division, which traded all those toxic securities. He has no idea what their awards will be. Ashooh says the "secrecy" of the awards was merely an intramural matter, to keep recipients from spreading envy among their colleagues. "It's confidentiality, not secrecy, that's the issue."

Cummings takes umbrage at that. “If they give a bonus, it’s public money,” he declares. “They are owned by the taxpayers of America, the same ones who are losing their jobs and homes and damned sure didn’t have a bonus for Christmas.”

Here’s the bottom line on Wall Street bonuses for 2008—according to the New York State Comptroller’s Office. They’re on track to be 50 percent lower than last year’s. That’s a sharp cut, except that it’s still \$18.4 billion. Taxpayers may see that money as theirs. Bankers and traders see it as pay for work done. “There’s no sympathy for us anywhere,” says one thirtysomething trader, “but it’s not as if we weren’t working hard.” Working hard and, in many cases, earning good money for the firm. “The system was: if we pay you \$2 million for a job, it’s because you helped us make \$20 million.” All too often, unfortunately, those profits were of the short-term sort, generated by risky securities now turned to ashes. Bonus-bagging bankers may be loath to admit it, but the answer is obvious: tie bonuses to longer-term profitability. Have them vest in two years, maybe three. Meanwhile, keep them in escrow. The question is: Will the bankers stand for it? “If the government says you can’t pay people who are successful, then game over,” says executive-compensation consultant Alan Johnson.

Second-raters may let their bonuses be tied up, but “the people who are good,” says Gustavo Dolfino, the Wall Street recruiter, “will say, ‘Screw that, I’ll start my own firm or start a restaurant in Greece.’”

For all the upper-middle bankers still taking bonuses this year, a lot of younger, lower-middle types are getting goose eggs; as one puts it: No bonuses at all. “Now suddenly I have to think about living on my salary,” says one mid-30s trader glumly. “It’s \$140,000 a year—with two kids, and parents who want to retire.” Peter Singer, a prominent bioethics professor at Princeton and author of the newly published *The Life You Can Save: Acting Now to End World Poverty*, suggests the bonus-deprived take a hard look at themselves. “How much happier does it make them to have \$10 million rather than \$200,000? ... Have they got enough from that salary to provide them and their families with the basics of what they need to live? And by that I don’t mean a six-bedroom apartment on Park Avenue.”

For a lot of them, apparently not. **Dolfino says the choice for some mid-level bankers and their families isn’t some firm across the street that will pay more, because none will. That game *is* over, at least in Manhattan. “The market**

for them is Mumbai, Dubai, Hong Kong, Singapore, Shanghai. We've been moving them out there for a year."

Highfliers who traded the riskiest of securities face a grimmer prospect. In his memo to staff, John Mack declared a new Morgan Stanley clawback policy starting with cash bonuses for 2008. The policy is ominously broad: awards could be clawed back not just for risky trading that results in long-term losses but also for "reputational harm to the Firm"—a pretty vague definition. Soon that policy may be industry-wide.

At least the Morgan Stanley guys have cash bonuses, provisional though they may be, for now. Credit Suisse—not a TARP recipient—is handing out the market equivalent of just deserts. Its bonuses this year are the same toxic securities its bankers and traders sold their customers last year. However, since the securities have already been marked down to 65 cents on the dollar, there may be nowhere for their value to go but up. Shareholders have borne the losses to date; the Credit Suisse—ers may do quite well.

For thirtysomethings and fortysomethings, the worst may still be to come: not just one bad year, but another. "That," says one Wall Street recruiter, "is when it will hit them." But for top officers? Maybe not so bad. After all, when a company's stock has gotten beat down to \$2 a share, and the top officers who helped drive it down get a few million shares in stock options, how hard is it to double that money? A.I.G.'s Ed Liddy, for one, will be eligible for a "special bonus for extraordinary performance" in 2010. What does that mean? No one, including TARP officials, seems to know.

The print version of this article put the total value of 2008 bonuses at \$16 billion. This was based on early estimates from the New York Comptroller's Office, which reached the \$18.4 billion figure after the issue had gone to press.

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