

Wall Street keeps paying out huge bonuses to star performers as recession batters economy

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NEW YORK — Even when their profits dried up and they turned to taxpayers to stay afloat, the nation's biggest banks kept paying huge bonuses. But much of the money went not to top executives, but to star traders and salesmen, even as the economy battled through the worst recession in a generation.

The bonuses — including \$1 million or more for each of nearly 4,800 bankers at nine of the largest firms — were paid for 2008, along with scores of smaller checks to thousands of rank-and-file employees. But their revelation this week has renewed criticism of companies relying on government aid.

The House of Representatives voted Friday to sharply restrict how Wall Street pays its executives and workers, barring compensation that rewards excessive risk-taking. But the bill only applies to future payments and do not cover the bonuses for last year, revealed in a report by New York Attorney General Andrew Cuomo.

That report, based on information subpoenaed from the banks, does not identify individual bonus recipients or their jobs. But it makes clear that a relatively small number of people enjoyed the largest payouts. Experts on Wall Street compensation said that, in many cases, the biggest bonuses went to star producers, whose work generated substantial profits even as their companies were struggling.

"Most of the money doesn't go to what we usually call executives," said Alan Johnson of Johnson Associates, a New York compensation consultant to companies including large banks. "It's going to highly paid production workers."

At Bank of New York Mellon, for example, none of the company's top five executives was paid a bonus. But the bank still paid 74 of its worker bonuses of at least \$1 million each. Senior executives at Wells Fargo & Co. — which lost \$43 billion last year — also did not pocket bonuses, even as the firm paid bonuses of at least \$1 million to 62 of its employees.

The biggest bonus pool was paid out by J.P. Morgan Chase & Co., where \$8.7 billion was distributed, a sum far larger than the \$5.6 billion in earnings the bank reported. More than 1,600 Morgan Chase employees took home bonuses of \$1 million or more.

Johnson, the pay consultant, said many of the traders and salesmen receiving big bonuses count on the checks for 75 percent of their yearly pay. Those employees have long been paid for individual performance — how many bonds a bond salesman sold and how much money those deals generated for the company — rather than on the overall results that are supposed to be used to set pay for top executives.

Banks have continued to pay even as some lost money, fearful a rival will woo their highest producers away.

"For Wall Street banks, their main assets are their people," said Broc Romanek, editor of CompensationStandards.com, a Web site providing advice to corporate boards. "The ones that are performing year to year, they don't want to lose them."

But the recession and large losses at many of the banks paying big bonuses has exposed the weaknesses of the system.

Banks distribute bonuses far down the corporate ladder, but the payments are much smaller for rank-and-file employees. A secretary to a trader might make \$50,000 a year and get a \$5,000 or \$10,000 bonus, Johnson said.

Overall, the banks are on track to pay out more than they did before the recession began. If current patterns hold, the biggest banks will pay their workers \$156 billion in 2009, compared to the \$143 billion paid in 2006, adjusted for inflation, said Lucian Bebchuk, a Harvard University professor and leading expert on corporate pay.

"The good days of compensation are back," Bebchuk said Friday.

Cuomo and other critics say the bonuses are excessive and show banks have abandoned their long-stated practice of basing pay on corporate results.

"Even a cursory examination of the data suggests that in these challenging economic times, compensation for bank employees has become unmoored from the bank's financial performance," the New York attorney general said in the report released by his office Wednesday.

But Johnson said Cuomo is incorrectly focused on a link between pay and corporate performance when it's individual performance that guides bonus payments.

"The most uncomfortable position for that kind of (pay) model is when a small group of people — the mortgage unit, for example — blows the whole firm up, and the majority of people have done what you've asked them to do," he said.