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AIG in Talks With U.S. Over Another \$250 Million in Bonuses

By Dennis Brady
Washington Post Staff Writer
Friday, July 10, 2009

American International Group's recent discussions with President Obama's compensation czar have centered on whether the company should pay about \$250 million in promised bonuses that come due during the next nine months.

AIG has asked the government to rule on several categories of bonuses, said a person familiar with the discussions. These include millions of dollars in payments owed to top corporate executives in coming days, and the troubled insurer has been seeking consent from senior Treasury official Kenneth R. Feinberg in the hope this would provide the company with political cover.

But of greater concern to both sides is what to do about the vastly larger sum that comes due in March 2010, when AIG is scheduled to pay more than \$200 million in bonuses aimed at retaining executives at AIG Financial Products, the unit whose complex derivative contracts nearly wrecked the insurance giant last fall.

A public furor erupted earlier this year when about \$165 million in retention bonuses were paid to Financial Products employees. The contracts that guaranteed those awards also promised similar payments in March 2010, and AIG has been examining the issue in hopes of preventing yet another debacle, company officials have said.

AIG officials have sought a determination from Feinberg, who Obama appointed last month to oversee the compensation of top executives at the seven firms that have received the largest federal bailouts, though the bonuses do not officially fall under his purview because they were promised last year. Feinberg is charged with shaping only current and future compensation.

But company officials have put him in the hot seat nevertheless. If Feinberg blesses the coming bonuses, the move would risk igniting public anger once again. If he advises against the payments and AIG reneges on its pledge to employees, they could abandon the company. Company executives have warned that a wholesale loss of expertise could endanger the taxpayers' investment in AIG, made under a rescue package now valued at \$180 billion.

No aspect of the current financial crisis has infuriated average Americans and lawmakers more than the AIG bonus issues. The company's predicament began nearly a year and a half ago. In early 2008, before the government's rescue of the giant insurer, employees at AIG Financial Products were promised more than \$400 million in retention pay, with lump sums coming in March 2009 and March 2010.

Even after the company's multiple bailouts, lawyers for the government and AIG agreed this year that most of those payments, however unsavory to the public, were legally binding. But when the issue infuriated millions of Americans, President Obama vowed to "pursue every single legal avenue to block" the bonuses. Lawmakers backed a bill that would have taxed the payments to Financial Products employees at 90 percent.

Then the uproar died down as quickly as it had begun. But behind the scenes, various pay issues remained unresolved at AIG. In the wake of the March controversy, officials at the Treasury and the Federal Reserve agreed with AIG that it was vital to keep employees at Financial Products in place, lest the firm's remaining deals go bad and bring down the entire company, according to company and government sources.

AIG Chairman Edward M. Liddy, in testimony to Congress earlier this year, warned that the deals at Financial Products could still "cause irreparable damage."

Federal officials began talks with AIG executives about revising the compensation packages for Financial Products employees. One possibility was a pay-as-you-go plan, rather than the lump sums that the previous contracts had required on a certain date.

Gerry Pasciucco, who arrived last fall to help dismantle AIG Financial Products, said in April that any new compensation plan had to instill confidence in Financial Products employees or they would leave. But he also recognized that the payments had to be restructured or a new firestorm would erupt when bonuses next came due.

While the pending 2010 retention bonuses at Financial Products have overshadowed all other topics in AIG's discussions with Feinberg, company officials have also requested his guidance on a host of other issues, including incentive and retention bonuses owed to the top 40 or so corporate executives.

In November, the company's top seven executives, including Liddy, agreed to forgo their bonuses through this year. Some executives also agreed to postpone retention awards they were owed by the company.

In March, as the controversy over AIG Financial Products was unfolding, the company agreed to restructure its corporate bonus plans. As part of the agreement, the senior executives were scheduled to receive half their 2008 bonuses -- which totaled \$9.6 million -- in the spring, with another quarter disbursed on July 15 and the rest on Sept. 15. The last two payments would depend on whether the company made progress in revamping its business and paying back bailout money to taxpayers. The company yesterday did not provide specifics about what constituted progress, or whether executives were given well-defined goals to accomplish before being eligible for additional pay.

AIG spokeswoman Christina Pretto said the company had sought the government's input in an effort to resolve its lingering pay issues the right way and to make sure all parties were comfortable before moving forward.

"We all have the same objective -- to execute the restructuring successfully, to repay taxpayers, to reduce risk and to wind down [Financial Products]," Pretto said.

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