Compensation Controversies at AIG

American International Group (AIG), a behemoth insurance and financial services company, became infamous in early 2009 for the payment of $165 million in retention bonuses to employees in its Financial Products unit, the business unit that brought AIG to its knees and necessitated the infusion of many billions of dollars in United States government bailout money, beginning in September 2008. Although the near collapse of AIG was influenced by "soured trades entered into by the company's Financial Products division," the operations of other AIG units, such as the financial gambles of its 2,000-employee Investments unit, crippled the company as well.[1]

Rapidly mounting financial losses had been occurring in the Financial Products unit for some time. Consequently, AIG decided to unwind the business and shut it down. In early 2008, employees in the Financial Products unit were asked to remain with the company through the unit's shutdown and, essentially, to work themselves out of a job.[2] To entice talented employees to stay and work through the shutdown, a contractual retention bonus plan was instituted.[3] According to a report in *The Washington Post* newspaper, the Financial Products employees were repeatedly assured, subsequent to the plan's implementation decision being made in March 2008, that AIG would honor these contractual obligations.[4]

The bonus plan was highly favorable to *AIG's* Financial Products employees, and the bonuses were not linked to the employees' performance. The unit's employees were paid bonuses totaling $423 million in 2007 despite a paper loss of $11.5 billion on toxic real estate assets.[5] *The 2008 bonus plan,* which was approved in March of that year by the board of AIG's Financial Products unit as the unit's losses were beginning to surface,[6] was "designed to kick in without regard to paper losses."[7] For 2008, paper losses on the toxic real estate assets ballooned to $28.6 billion, and total losses were more than $40 billion.[8]

According to New York Attorney General Andrew Cuomo, who was threatening legal action against AIG, 73 Financial Products employees received $1 million or more in bonus payments. The top recipient, identified by *The Wall Street Journal* as Douglas Poling, received more than $6.4 million, whereas the next six top bonus recipients got more than $4 million each. In addition, another fifteen employees received $2 million or more and fifty-one other employees received $1 million or more.[9] "Of those people collecting more than $1 million, eleven. . . had already left the company [by March 2009], Mr. Cuomo's office said."[10]

When the retention bonuses were paid in March 2009, the United States Congress, President Barack Obama's administration, and the public were outraged. Under intense political pressure, AIG's then-CEO Edward Liddy, who was working for only $1 a year, asked the "bonus recipients to cough up half their pay, despite fearing that *resignations* would follow."[11] In defense of the bonuses, however, Gerry Pasciucco, head of the Financial Products unit, observed that the "top bonus recipient, Douglas Poling, had successfully sold off several holdings in his area of responsibility, infrastructure and energy investments. He's done an excellent job at the task of unwinding his book, of realizing value."[12]

In the ensuing emotionally charged days, employees of the Financial Products unit pondered what to do. According to one account, "employees have huddled in small groups in conference rooms off the division's main trading floor in Wilton, Conn., debating what to do. Some have expressed worries about retaliation. One employee said he had instructed his wife to call the police in the event his identity became known and a news truck appeared at his home. Others commiserated that their children have been verbally abused in school. Employees have passed around emails from colleagues who opposed returning the payments."[13]

Some Financial Products employees decided to return their bonuses. Mr. Poling indicated he intended to return his bonus.[14] "Fifteen of the top 20 recipients of the retention bonuses have agreed to give back a total of more than $30 million in payments."[15]

Others Financial Products employees opted to keep their bonuses, perhaps the most notable of whom was Jake DeSantis, a Financial Products unit executive who received an after-tax bonus of $742,006.40. On March 25, 2009, in an Op-Ed contribution to the *New York Times*, DeSantis published an open letter to Edward Liddy, wherein he resigned his AIG position. DeSantis's letter read in part: