

DEALS & DEAL MAKERS

AIG Tries to Defuse Bonus Pay Showdown

Plan Would Speed Up Payments if They Were Reduced

By SERENA NG

American International Group Inc. is seeking to reduce and pay out early a batch of retention payments to employees at its financial products division, as the insurer tries to defuse a potential showdown over the bonuses, according to people familiar with the matter.

AIG is obligated to pay out \$195 million in retention bonuses in March to AIG Financial Products employees. The company recently discussed a proposal to make the payment several weeks early if employees agree to have it reduced by 10% to 15%, people familiar with the matter said.

AIG wants to appease de-

mands from U.S. pay czar Kenneth Feinberg, who has told the company to reduce its March 2010 retention awards and insisted that pledges from AIGFP employees to return portions of their March 2009 retention payments be honored. AIG hopes to satisfy demands that some of the earlier bonuses paid to employees of the unit be returned.

The giant insurer is also trying to reduce uncertainty among employees at AIGFP, which is in the process of unwinding derivative trades that could still pose considerable risk to AIG and the financial system.

"We remain committed to meeting our commitments to return a portion of the (AIGFP) retention payments," said an AIG

spokeswoman, adding that the company continues to work with Mr. Feinberg "on the appropriate way to do so."

AIG's payment of retention awards to employees at AIGFP has become a political lightning rod after the unit's soured derivative trades on mortgages nearly felled the entire company in 2008 and prompted the massive U.S. bailout of AIG. Last March, public and congressional outrage erupted after \$168 million in retention awards were given to a large group of AIGFP employees.

The public outcry led to demands that the money be repaid, and some executives said they would repay portions of their March 2009 bonuses. By last August, there were pledges to re-

turn a total of \$45 million, of which \$19 million had been collected, a government audit noted in October.

AIG is scheduled to pay out another \$195 million in retention awards by March 15, 2010. The company is hoping to reduce those awards by \$26 million, which would enable the full \$45 million in pledged amounts from the March 2009 retention payments to be repaid, according to people familiar with the matter.

It is unclear if the proposal will win Mr. Feinberg's support. Details of the plan are still being worked out and the company is also exploring other ways of dealing with the issue.

AIG is also in the midst of negotiating 2010 compensation packages for its top 25 employees with Mr. Feinberg, who has authority to limit pay for the 100

most highly paid executives at companies that have received large amounts of federal aid.

Roughly a quarter of AIG's top 100 executives work at AIGFP and some are in the top 25 group. Most of the individuals who created the unit's problematic mortgage trades have left the firm, and the remaining employees at AIGFP are working to close out or unwind thousands of derivatives tied to interest rates, bonds, currencies and commodities.

AIGFP has reduced the notional amount of its outstanding trades to \$940 billion from \$1.9 trillion in September 2008, and the number of contracts to 16,000 from 44,000. As the unit has sold some businesses and closed down offices in Tokyo and Hong Kong, its staff numbers have dwindled to 237 people

from 428 before the U.S. bailout.

Some AIG officials predict it will take at least another year for AIGFP to unwind the bulk of its remaining positions and until then, it will need to retain some key individuals to oversee this process. A resolution of the March 2010 retention payments and the terms of new 2010 compensation deals could determine whether the remaining employees at AIGFP stay or depart en masse this spring.

"If this is done in an appropriate way and employees can get certain assurances, they would be willing to stay on and see through the unwinds," says Andrew Goodstadt, an attorney at Thompson Wigdor & Gilly LLP in New York who represents over a dozen AIGFP employees.

—Joann S. Lublin
contributed to this article.