



Exclusive: AIG owes retention payouts to many ex-employees

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By Paritosh Bansal and Steve Eder

NEW YORK (Reuters) - A substantial number of AIG's Financial Products employees set to get some \$195 million in retention payments no longer work with the bailed out insurer, sources familiar with the matter said on Wednesday.

This will be the latest round of retention payments to the staff of the American International Group Inc unit that was behind the insurer's spectacular losses from credit derivatives and downfall in September 2008.

A \$165 million payment to employees in March of 2009 led to verbal assaults by politicians and several demonstrations, including a bus tour of employee homes near the unit's Wilton, Connecticut headquarters, and threats to others.

The latest payments would come at a time when public anger over outsized Wall Street bonuses is building to a new crescendo. Firms such as Goldman Sachs Group Inc and Morgan Stanley are set to pay massive bonuses to their employees after taking part in U.S. taxpayer funded bailouts.

One of the sources said about 40 percent of AIG Financial Products staff in line for the payout due in March of 2010 are former employees.

It wasn't clear how many people in total were due to get the payouts, but the second source said the group included about 200 current employees. Both sources declined to be identified because of the sensitivity of the matter.

"The driving rationale for the bonuses has been that you need the people there to unwind the complex instruments," said Cornelius Hurley, director of the Morin Center for Banking and Financial Law at Boston University. "If the people are no longer there, that blows a hole in the bottom of that boat."

Andrew Goodstadt, a partner at Thompson Wigdor & Gilly LLP, which is representing some current and former AIG Financial Products employees, said the former employees who were laid off or terminated without cause have a legal entitlement to their retention payments.

Former employees who are eligible for these bonuses were laid off after they completed the tasks for which they were retained, the second source said.

"They did what they were supposed to do and they put themselves out of business," the same source said.

AIG Financial Products has been unwinding its positions. It has reduced staff to 237 people from 428 before the bailout. It has also cut outstanding trades to a notional value of \$940 billion from \$1.9 trillion in September 2008 and contracts to 16,100 from 44,000.

Following the public outcry last year some AIG Financial Products employees said they would repay portions of their March 2009 bonuses. But a government audit from late 2009 said only \$19 million of the total \$45 million pledged has been collected.

"These were not pledges," Goodstadt said, describing it as a "contingent, non-binding intent conditional upon a lot of events happening, none of which did."

"These conditions included protections about their personal safety," Goodstadt said.

Kenneth Feinberg, the U.S. Treasury Department's special master for compensation hired to help sort out pay at firms that received government bailouts, has demanded that the remainder of the \$45 million paid out as bonuses last year be recouped.

The retention bonuses are out of Feinberg's purview because they are based on contracts made before he took the role as the government's pay czar.

AIG is now weighing a plan to pay retention bonuses early in exchange for current and former employees taking a cut of up to 15 percent in what they are owed in a bid to recoup the \$26 million, the first source said.

"We remain committed to meeting our commitments to return a portion of the retention payments and we continue to work with the special master on the appropriate way to do so," AIG said in a statement.

Once the world's largest insurer, AIG nearly collapsed from credit default swaps, a type of derivative that had been sold by the financial products business.

AIG was left on the hook for tens of billions of dollars in collateral payouts to some of the biggest U.S. and European financial institutions, forcing the U.S. government to step in with a \$182.3 billion aid package.

(Reporting by Paritosh Bansal and Steve Eder; Editing Bernard Orr)

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