Amid Fury, U.S. Is Set to Curb Executives' Pay After Bailouts

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The Obama administration is expected to impose a cap of $500,000 for top executives at companies that receive large amounts of bailout money, according to people familiar with the plan.

Executives would also be prohibited from receiving any bonuses above their base pay, except for normal stock dividends.

President Obama and Treasury Secretary Timothy F. Geithner plan to announce the executive compensation plan on Wednesday morning at the White House.

The new rules would be far tougher than any restrictions imposed during the Bush administration, and they could force executives to accept deep reductions in their current pay. They come amid rising public fury about huge pay packages for executives at financial companies being propped up by federal tax dollars.

Executives at companies that have already received money from the Treasury Department would not have to make any changes. But analysts and administration officials are bracing for a huge wave of new losses, largely because of the deepening recession, and many companies that have already received federal money may well be coming back.

Crucial details remained unclear on Tuesday night, including whether the restrictions would apply to all companies that receive money under the so-called Troubled Asset Relief Program, or TARP, or whether they would apply only to the “exceptional” companies that were being rescued from collapse.

Under the Treasury's $700 billion rescue program, most companies that have received money so far have been considered “healthy” rather than on the brink of collapse.

But five of the biggest companies to get help -- Citigroup, Bank of America and the American International Group, General Motors and Chrysler -- were all facing acute problems. And top executives at those companies made far more than $500,000 in recent years.

Kenneth D. Lewis, the chief executive of Bank of America, took home more than $20 million in 2007. Of that, $5.75 million was in salary and bonuses.

Vikram Pandit, who became chief executive of Citigroup in December of 2007 and previously held other senior positions at the bank, made $3.1 million.

Richard Wagoner, the chief executive of General Motors, made $14.4 million, much of it in stock, options and other non-cash benefits. He earned a $1.6 million salary.

"That is pretty draconian -- $500,000 is not a lot of money, particularly if there is no bonus," said James F. Reda, founder and managing director of James F. Reda & Associates, a compensation consulting firm. "And you know these companies that are in trouble are not going to pay much of an annual dividend."
Mr. Reda said only a handful of big companies pay chief executives and other senior executives $500,000 or less in total compensation. He said such limits will make it hard for the companies to recruit and keep executives, most of whom could earn more money at other firms.

"It would be really tough to get people to staff" companies that are forced to impose these limits, he said. "I don't think this will work."

President Obama last week branded Wall Street bankers "shameful" for giving themselves nearly $20 billion in bonuses as the economy was deteriorating and the government was spending billions to bail out some of the nation's most prominent financial institutions.

"If the taxpayers are helping you, then you have certain responsibilities to not be living high on the hog," Mr. Obama said Tuesday, in an interview with "NBC Nightly News."

Mr. Obama's new rules are coming just as he is expected to ask for additional sums of money, beyond the $700 billion already authorized, to prop up the financial system, even as he pushes Congress to move quickly on a separate economic stimulus package that could cost taxpayers as much as $900 billion.

If the new pay limit applies to all companies that receive Treasury money, it would be almost as tough as a $400,000 limit proposed last week by Senator Claire McCaskill, Democrat of Missouri.

Senator McCaskill, reacting to reports of extravagant perks and bonuses at companies like Merrill Lynch and Citigroup, had blasted Wall Street executives as "a bunch of idiots" who were "kicking sand in the face of the American taxpayer."

The banks that have received bailout funds already are subject to limits on compensation, but the Bush administration intentionally left them lax. The top five executives at banks that get an equity infusion from the government are restricted from offering golden parachutes, as rich severance packages are called, and any compensation above $500,000 is not tax deductible to the company.

Companies that received emergency money, like Citigroup, faced somewhat tougher restrictions, including a requirement to reduce the bonus pool for the top 50 executives by 40 percent. But even those restrictions come nowhere near the $500,000 cap.

In a letter to Congress last month, Lawrence H. Summers, director of Mr. Obama's National Economic Council, suggested that the new pay restrictions would apply to all companies that get Federal help.

Without mentioning a particular dollar limit, Mr. Summers wrote that "executive compensation above a specified threshold amount be paid in restricted stock or similar form that cannot be liquidated or sold until the government has been repaid."

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GRAPHIC: PHOTOS: Vikram Pandit of Citigroup, left, Kenneth D. Lewis of Bank of America, center, and Rick Wagoner of General Motors received multimillion dollar salary packages in recent years. (PHOTOGRAPHS BY, LEFT TO RIGHT: CITIGROUP REBECCA COOK/REUTERS STAN HONDA/AGENCE FRANCE-PRESSE) (pg.A20)

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