18 AIG employees to return bonuses

Brady Dennis

It had been a brutal week inside AIG Financial Products. News that the firm had doled out more than $165 million in retention payments over the past week had angered the country and sent lawmakers into fits of rage.

American International Group's president, Edward M. Liddy, had asked that the unit's employees consider returning some, if not all, of the money. New York Attorney General Andrew Cuomo had subpoenaed AIG for a list of Financial Products employees and how much money each had received.

Now, the firm's chief operating officer, Gerry Pasciucco, had set a 5 p.m. Monday deadline for staffers to indicate whether they planned to return their retention payments, and if so, what percentage. His e-mail included what appeared to be a tacit ultimatum from Cuomo.

"We have received assurances from Attorney General Cuomo that no names will be released by his office before he completes a security review which is expected to take at least a week," Pasciucco wrote."To the extent that we meet certain participation targets, it is not expected that the names would be released at all."

This afternoon, 18 of the top 25 Financial Products employees had agreed to return their retention payments, amounting to more than $50 million thus far.

"They are doing the right thing," Cuomo said, adding that he now saw no use in revealing the names of people who gave the money back.

In addition, AIG issued a press release that said, "We are deeply gratified that a vast majority of FP's senior leadership have expressed a willingness to forsake their recent retention payments."

AIG's efforts to retrieve the payments after last week's outpouring of public indignation marked a dramatic reversal to months of assurances to Financial Products employees that the insurance giant would honor those contracts, according to numerous internal AIG e-mails and memos obtained by The Washington Post.

The retention program at Financial Products was created in March 2008. The unit's longtime president, Joe Cassano, had announced his resignation as it became clear that the housing bubble was collapsing and the firm's now-famous credit-default swaps were going to cost AIG billions. Company executives planned to keep Financial Products afloat, but they worried that its employees would flee without the promise of financial stability.

"AIG is committed to the future of AIG-FP and is confident about the long term prospects for the business," Bill Dooley, an AIG senior vice president, wrote to Financial Products employees on March 18, 2008. "AIG recognizes that it is important to combine our statements of support for the business with a retention plan that reassures employees regarding their current and future financial prospects with the company. We hope that this plan will encourage all of you to make the same continuing long-term commitment to AIG-FP that AIG is making."

Those promises kept coming -- even as the federal government rescued AIG in September, even as the company decided that Financial Products must be closed down, and even as it hired consulting firms such as McKinsey and BlackRock to work alongside the Federal Reserve to help chart the path ahead.

"The unwinding of FP's complex portfolio will take time to complete and will require the specialized skills and unique knowledge that you have," Dooley wrote to the Financial Products staff on Oct. 3. "I ask that you continue to operate with the same professionalism and grace that you have shown to date ... Although many issues remain to be resolved, I can tell you that AIG will live up to its commitment in honoring your retention guarantees."

Several AIG executives said that Cuomo had been aware of the retention payments last fall.

"They showed it to Cuomo," said one executive, who was not authorized to speak on the record. "Cuomo was aware this thing was signed up."

Cuomo's office did not respond to a request for comment today.

Cuomo met with Liddy last October to express displeasure over executive compensation and lavish spending at AIG. In a press release issued after the meeting, Cuomo was quoted as saying, "These actions are not intended to jeopardize the hard-earned compensation of the vast majority of AIG's employees, including retention and severance arrangements, who are essential to rebuilding AIG and the economy of New York."

In November, AIG hired Pasciucco, a Morgan Stanley veteran, to help Financial Products carefully dismantle the unit's more than $2 trillion in exposures. "This is a tremendous undertaking and it will require the effort of the entire company," he wrote to the staff that week. "There is great urgency around this task."

Months later, on March 2, AIG posted a $62 billion loss for the fourth quarter of 2008 and announced an expanded bailout that included access to another $30 billion of taxpayer money. That day, Pasciucco sent out another e-mail to his staff.

"Our mission at FP remains unchanged," he said. "Today is not a day to pause and be distracted by the news flow. Fortunately, today can be a day like any other. The restructuring allows us to continue to have the tools we need to stay focused and continue to professionally execute our plan."

Soon, however, the tide began to change. On March 13, the day the retention payments began to go out and two days after Treasury Secretary Timothy F. Geithner had chided Liddy about them, another e-mail arrived from Pasciucco.

"Although today we honored our legal obligation to make this payment," he wrote, "it would be irresponsible for us not to recognize the extraordinary circumstances we find ourselves in, and to do as much as we are able to reduce other, non-contractually obligated payments."

Pasciucco noted that each of the firm's employees had "been severely tested in the past year and will continue to be challenged in the weeks and months ahead."

Little did he know how much they would be tested in the coming days, receiving the scorn of the public and the Congress and even facing death threats as word of the retention payments spread. As the hysteria began to swell early last week, Pasciucco e-mailed his colleagues once again.

"Barring a new meltdown by Britney Spears, we are likely to occupy the front page for some time to come," he wrote. "Ignore it. Focus on what we each do control. Focus on the future. Focus on the professional completion of the work at hand so that, when viewed fairly and away from the heat of easy populist sophistry, we will all be proud."

Washington Post, Washington, 23 mar. 2009, Business, online. Disponível em <www.washingtonpost.com>. Acesso em: 24 mar. 2009.