Ailing Banks Favor Salaries Over Shareholders

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Finding the winners on Wall Street is usually as simple as looking at pay. Rarely are bankers who lose money paid as generously as those who make it.

But this year is unusual. A handful of big banks that are struggling in the postbailout world are, by some measures, the industry's most magnanimous employers. Roughly 90 cents out of every dollar that these banks earned in 2009 — and sometimes more — is going toward employee salaries, bonuses and benefits, according to company filings.

Amid all the commotion over the large bonuses that many bankers are collecting, what stands out is not only how much the stars are making. It is also how much of the profits lesser lights are taking home.

To compete with well-heeled rivals, banks like Citigroup are giving their employees an unheard-of cut of the winnings. Citigroup paid its employees so much in 2009 — $24.9 billion — that the company more than wiped out every penny of profit. After paying its employees and returning billions of bailout dollars, Citigroup posted a $1.6 billion annual loss.

Granted, the bankers and traders who work for Wall Street's biggest moneymakers are still collecting the richest rewards. But this bonus season, banking executives are rethinking how to divide the spoils.

Goldman Sachs, that highest of highfliers, is doing the unthinkable. It is giving its employees an unusually small cut of its profits — about 45 cents out of every dollar — even though its paydays will, in dollar terms, rank among the richest of all time.

That 45-cent figure, known as the payout ratio, represents the amount of compensation that Goldman is meting out relative to the pool of profits available for compensation. Until recently, the ratio for most Wall Street banks hovered around 60 cents of every dollar, in line with other labor- and talent-intensive industries like retailing and health care.

Most Americans would be thrilled to collect a Goldman-style paycheck. If compensation were spread evenly among the bank's 36,200 employees, each would take home about $447,000.

But to keep up with the Goldmans, laggards like Citigroup are handing out fat slices of their profits, leaving little left over for their shareholders. Citigroup is, in effect, paying its employees $1.45 for every dollar the company took in last year. On average, its workers stand to earn $94,000 each.

Bank of America, meantime, is spending 88 cents of every dollar it made in 2009 to compensate its workers. At Morgan Stanley, that figure is 94 cents.

JPMorgan Chase, which has fared better than those three, paid out 63 cents of every dollar.

Citigroup, Bank of America and Morgan Stanley — all of which have repaid their federal aid — defend their pay practices. Press officers for the banks say a number of factors, from one-time accounting charges to the constant need to lure and retain top producers, drove decisions about compensation.

But some analysts and investors say these and other banks are rewarding their employees at shareholders' expense. The banking industry is quick to pay its workers when times are good but slow to penalize them when times are tough. Pay for performance? Not on Wall Street, the critics say.

"The investor in America sits at the bottom of the food chain," said John C. Bogle, the founder and former chairman of the Vanguard Group, the mutual fund giant. "The financial industry gets paid before their clients, and we get paid whether times are good or bad."

Institutional investors are alarmed by what they characterize as excessive rewards for bank employees. While banks are increasing salaries and bonuses for many employees, many have yet to restore dividends that were cut during the financial crisis.

"It's not a fair shake," said John A. Hill, chairman of the trustees at Putnam Funds, another big mutual fund company. "I think the shareholders who paid for building that franchise should be getting a bigger share of the franchise's profits."

Even now, after all those big bonus numbers, the pay-to-profit ratio for the financial industry might come as a surprise to many people. The five largest banks on Wall Street — Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley — earned a combined $147.4 billion before paying compensation and taxes last year. They plowed back a combined $31.2 billion into their companies and returned a total of $2.1 billion to shareholders in the form of dividends. They paid $114.1 billion to their employees.

Wall Street giants like Goldman Sachs and Morgan Stanley traditionally set aside about half their revenue for compensation. Big diversified banks, like Citigroup and JPMorgan Chase, typically set aside about a third. Most banks have typically viewed compensation as the cost of bringing in new income, even though the main concern for most shareholders is profits.

At some banks, the relationship between pay and profit is a bit tenuous. In 2005, for instance, Morgan Stanley made a pretax profit of $7.4 billion. That year, compensation at the bank averaged $212,000 for each employee. Last year, Morgan Stanley made about $857 million before taxes. But compensation averaged $235,000 for each employee.

In other words, Morgan Stanley employees collected roughly 61 cents out of every dollar the bank made in 2005, and about 94 cents of every dollar last year.

Mark Lake, a Morgan Stanley spokesman, said that 2009 compensation per employee was the lowest in at least seven years if the business then looked as it did today, and that adding thousands of Smith Barney brokers and a large accounting charge led to a higher payout ratio.

Bank of America traditionally paid out a small sliver of its profits to workers and maintained a relatively high dividend. But the bank reversed course after its acquired Merrill Lynch and Countrywide Financial. Now Bank of America has more than doubled the share of earnings it sets aside for employees. It was forced to cut its quarterly dividend to a penny as a condition of its second government bailout and has yet to restore it.

Scott Silvestri, a Bank of America spokesman, attributed the higher compensation costs to a "change in the business mix" after the Merrill Lynch deal. "We must pay those, or we have no company," Mr. Silvestri said.

Shareholder advocates maintain that Wall Street pay works in favor of management and employees rather than shareholders. The industry's bonus culture is widely viewed as having helped foster the excessive risk-taking that led to the financial crisis.

In the three years before the crisis, the five Wall Street giants set aside a total of $295 billion in compensation. Had they not handed out bonuses or shifted more compensation into stock, pay experts estimate, those banks might have kept $118 billion of additional capital in the financial system. That is almost equal to the $135 billion of bailout funds that taxpayers poured into those five institutions.

"It's heads I win, and tails they don't lose too badly," said Jesse M. Fried, a professor at Harvard Law School and co-author of "Pay Without Performance."

Some investors and Washington policy makers argue that shareholders should get a say on pay, even if their vote is nonbinding. Mr. Bogle, of Vanguard, says big investors need to be vigilant.

"If the shareholders would wake up, executive compensation would not be what it is," he said.