Cash Bonuses on Wall Street to Drop 14%

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Cash bonuses paid to Wall Street employees for 2011 are expected to drop 14% to their lowest level since the global financial crisis, according to an estimate released Wednesday that highlights the ongoing challenges faced by the securities industry.

New York State Comptroller Thomas DiNapoli projected that cash bonuses for 2011 will drop to $19.7 billion, the first drop since 2008.

In 2010, cash bonuses rose 2% to $22.8 billion after surging 28% to $22.5 billion in 2009, according to the comptroller. In 2008, at the height of the financial crisis, cash bonuses amounted to $17.6 billion.

The average cash bonus paid to securities-industry employees who work in New York City fell 13% to $121,150 in 2011, the comptroller estimated.

"The financial sector is beginning to recognize and internalize that they cannot expect the high and ever-growing levels of profits the financial sector became used to expecting in the pre-crisis years," said Lucian Bebchuk, a professor at Harvard Law School who is also the author of a book on executive pay.

"Still, the compensation in finance relative to other sectors in the economy seems to remain high by [historical] standards, and it is thus far from clear that the decline in compensation to financial executives has run its full course," Bebchuk said in an email.

Some top bankers, however, argue that high compensation is the only way to attract exceptional employees. Jamie Dimon, chief executive of J.P. Morgan Chase & Co., told investors just that Tuesday.

"We are going to pay competitively," Dimon said. "We need top talent. You cannot run these businesses with second-rate talent." Read more about Dimon's comments at the bank's investor day.

The state comptroller's estimate is based on personal-income-tax data; it reflects cash bonuses and deferred compensation for which taxes have been paid. But the forecast does not include stock options and other forms of deferred compensation that have not been realized.

Several New York financial firms announced bonus reductions of around 20% to 30% for 2011, but the tax data point to a smaller decline in the overall cash bonus pool, most likely because of the payout of bonuses that had been deferred from previous years.

"Those numbers are just cash bonuses, but you don't have the full compensation," said Xavier Gabaix, a finance professor at New York University's Stern School of Business. "The

comptroller should absolutely report deferred compensation. Otherwise, it's hard to interpret the results."

A spokeswoman for the state comptroller told MarketWatch that "we only look at actuals that have been received [by the tax authorities]."

Before the financial crisis, business and personal income tax collected from Wall Street–related activities accounted for up to 20% of New York State tax revenues, but that number fell to 14% last year.

The decline in cash bonuses in 2011 came as profits for the New York City financial industry slumped to $13.5 billion, compared with $27.6 billion in 2010 and $61.4 billion in 2009, according to the comptroller's office.