AIG CEO, employees get death threats over bonuses

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SAN FRANCISCO -- American International Group Inc. Chief Executive Edward Liddy and employees at the insurer's troubled derivatives unit have received death threats amid a national furor over big bonuses the company recently paid.

Liddy said Wednesday he has asked most recipients of more than $160 million in bonuses to repay at least half the money. But he warned that staff may resign when they return the cash, making it more difficult to unwind AIG's remaining $1.6 trillion book of derivatives.

He also said the identities of the bonus recipients should not be made public, because that could put employees in further danger. He read one of the threats, which said AIG staff and their families should be executed "with piano wire."

Liddy's predicament shows how dramatically public sentiment has turned against the current system of executive compensation in the United States -- especially at companies like AIG, which have been bailed out with tens of billions in government money.

"Physical threats to yourself and your family ... are condemnable and no one should be going through that," said Rep. Scott Garrett, R-N.J., ranking member of the House Financial Services Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises.

Other politicians called such threats "despicable" and apologized to Liddy and thanked him for taking the reins at AIG after the insurer almost collapsed in September.

However, some legislators continued to hammer Liddy over the bonuses.

Rep. Stephen Lynch, D-Mass., compared the payments to the crew and captain of a sinking ship "reserving the lifeboats."

"That amounts to violation of trust in the people who invested in this company," he said. "It's arrogance, and I think it's probably illegal."

Liddy, who is being paid a salary of $1 at AIG, repeated that he wasn't around when the bonus agreements were set up in early 2008 and stressed again that he would have written the contracts differently.

"I take offense sir," he said. "Offense was intended," Lynch countered.

The furor over bonuses puts AIG in a precarious position, as it tries to calm the anger while keeping enough knowledgeable traders at its derivatives unit to prevent another collapse, which could leave taxpayers with even more losses.

"I'm desperately trying to prevent" the insurer from collapsing, Liddy told lawmakers Wednesday.

If too many employees at the derivatives unit leave, there could be "cross defaults" on some of AIG's derivatives contracts, which would lead to bankruptcy, he said.

House Financial Services Securities Subcommittee Chairman Paul Kanjorski, D-Pa., warned the controversy is hampering the government's efforts to repair the financial system.

Kanjorski said he was disappointed because he had advised AIG to try to limit such bonuses and offered to help. "As of last week, the only thing we received was a letter indicating that the payments had been made," he added.

Kanjorski also said AIG should have refused to pay the bonuses and left staff to sue the insurer.

"In this situation, there was a rush to payment" by AIG, he said.

House Financial Services Committee Chairman Barney Frank, D-Mass., had said he may use a subpoena to force AIG to disclose the identities of employees who got the bonuses.

Liddy said AIG would only disclose the names of recipients if they remained confidential. "I hope that it won't require a subpoena, but if it comes to that we will comply. But I'm concerned about the safety of our employees and their families."

Frank said he would consult with law enforcement and would keep security concerns in mind when considering a subpoena. He also quizzed Liddy about AIG employees who got big retention bonuses recently even though they had already left the insurer.

Eleven employees who received bonuses of at least $1 million each have left AIG, according to the New York attorney general's office.

"Regardless of whether it's important to retain employees, it is clear that the AIG bonuses did not serve a retention purpose and couldn't be justified as such," said Lucian Bebchuk, an executive-compensation expert at Harvard Law School. "A payment that's not conditional on staying doesn't really provide an incentive to stick around."

Liddy said some retention bonuses were paid to employees who finished winding down their part of AIG's derivatives book. Those people then left the insurer. "Do a good job, you get to keep your retention bonuses," he explained.

Rep. Connie Mack, R-Fla., called for Treasury Secretary Timothy Geithner to resign over the bonus affair. During the hearing, a protester held up a pink sign that read "Fire Geithner."

Geithner on Tuesday acknowledged "considerable outrage" about the bonuses, and said AIG will pay the Treasury an amount equal to the bonuses, and that the Treasury will deduct that amount

from the $30 billion in government assistance going to the company.

While he defended the decision to make the payouts, Liddy -- the former Allstate senior executive hired by the government to oversee AIG as the government moved to forestall the company's collapse last September -- conceded that the bonus issue has caused widespread public anger. "I am personally mindful, both of the environment in which we are operating and the president's call for a more restrained compensation system."

Liddy also acknowledged the scale of AIG's downfall, and the bad practices that led to its implosion.

"As a businessman of some 37 years, I have seen the good side of capitalism," he remarked. "Over the last few months, in reviewing how AIG had been run in prior years, I have also seen evidence of its bad side."

"Mistakes were made on a scale few could have ever imagined possible," he said. "The most critical of those mistakes was that the company strayed from its core competencies in the insurance business."

But Liddy also tried to sound an upbeat note about AIG's future -- and the future of the taxpayer money it has received.

"I want to assure you that the people at AIG today are working as hard as we can to execute the restructuring plan that, we believe, offers America's taxpayers the best possible outcome," he added. "When you owe someone money, you pay that money back."