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Banks Set for Record Pay

Top Firms on Pace to Award $145 Billion for 2009, Up 18%, WSJ Study Finds

By STEPHEN GROCER

Major U.S. banks and securities firms are on pace to pay their people about $145 billion for 2009, a record sum that indicates how compensation is climbing despite fury over Wall Street's pay culture.

An analysis by The Wall Street Journal shows that executives, traders, investment bankers, money managers and others at 38 top financial companies can expect to earn nearly 18% more than they did in 2008—and slightly more than in the record year of 2007. The conclusions are based on an examination of securities filings for the first nine months of 2009 and revenue estimates through year-end.

Graphic

Compensation at 38 major financial firms

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Despite the past year's financial crisis and the ensuing bailout, banks will be paying out a record $145 billion in bonuses, which tops bonuses from 2007.

The rapid comeback of pay on Wall Street, which will be on display as companies report fourth-quarter results starting with J.P. Morgan Chase & Co. on Friday, has exposed the industry to a broadening mix of proposed crackdowns, including a 10-year, $90 billion bank tax described for the first time Thursday by President Barack Obama

In detailing the tax, Mr. Obama aimed some sharp words at bankers. "I'd urge you to cover the costs of the [financial] rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners."

The tax move comes as other parts of the White House's financial-overhaul plan are stumbling, including a proposal for an independent consumer-protection regulator. Senate Banking Committee Chairman Christopher Dodd (D., Conn.) is considering scrapping the idea, people familiar with the matter said Thursday.

If approved by Congress, the new tax—called a "financial crisis responsibility fee" by the White House—would affect about 50 banks, insurance companies and large broker-dealers.

The fee would fall most heavily on the nation's top six banking companies: Citigroup Inc., J.P. Morgan, Bank of America Corp., Goldman Sachs Group Inc., Morgan Stanley and Wells Fargo & Co. Each is likely to face an annual tax bill of $1 billion or more, with Citigroup and J.P. Morgan facing the largest liabilities of more than $2.4 billion apiece.

Some analysts estimated the tax could consume about 5% of this year's profits.

The surge in bonuses comes barely a year after the government bailed out the U.S. financial system amid the worst economic crisis in generations. This year major U.S. banks and securities firms are poised to pay their employees a record amount in compensation and benefits—about $145.85 billion, according to the Journal's analysis.

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Annie Tritt for The Wall Street Journal

Citigroup and other banks have told employees their bonuses will contain a larger percentage of the banks' stock. The shares come with restrictions on how soon it can be sold.

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The growth reflects a rebound in the banking industry's revenue to pre-crisis levels. The firms in the analysis are on pace to report $450 billion in revenue, a 25% increase from 2007. Overall, pay is on pace to be equivalent to about 32% of revenue, a decline from 40% in 2008.

"The companies have done well since the meltdown," said Mike Shah, a lawyer at Jones Day who advises companies on executive pay, employee benefits and corporate governance. "Some of it has to do with government assistance," he says. But the issue for corporate boards of directors, which make pay decisions, is this, Mr. Shah says: "You can't just say, 'There is a lot of populist anger out there, so we are not going to compensate our executives who have worked hard to recover some shareholder value.' "

Total compensation and benefits at the publicly traded firms analyzed by the Journal are on track to increase 18% from 2008's $123.4 billion, and 6% from 2007's $137.23 billion payout. This year, employees at the companies will earn an estimated $149,192 on average, up almost $3,000 from 2007 levels.

Some companies cautioned that the projections might be too high, which suggests they might trim their pay levels for the fourth quarter in response to public anger. Citigroup, Goldman and Morgan Stanley have also told workers that their bonuses will contain a bigger percentage of stock. The banks believe that paying staff with more of the firm's own stock (which tethers an employee's income to the firm's performance and also usually comes with restrictions on how soon the stock can be sold) will demonstrate sensitivity to anger over the rapid pay rebound.

The increase in both revenue and compensation is due partly to the industry's consolidation during the financial crisis. J.P. Morgan, for example, acquired Washington Mutual Inc. and Bear Stearns Cos. Bank of America bought Merrill Lynch & Co. and Countrywide Financial Corp. Those deals inflated revenue and compensation because the acquirers' financial results now include the purchased companies.

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Wall Street's return to big profits also highlights success in the government's efforts to stabilize the financial industry. But with overall unemployment at 10% and much of the U.S. economy struggling, criticism of Wall Street pay has become relentless.

To calculate the 2009 pay projections, the Journal examined each company's publicly disclosed compensation and benefits. The figures include salary, health benefits, retirement plans and stock awards as well as the money many firms set aside for bonuses at the end of the year.

The Journal calculated each firm's compensation as a percentage of revenue. It then projected how much the company would pay at that rate over the full year, using analyst estimates for 2009 revenue provided by Thomson Reuters. The methodology was reviewed by compensation experts and explained to all the companies in the study.

The analysis includes banking giants J.P. Morgan, Bank of America and Citigroup, securities firms such as Goldman and Morgan Stanley, asset managers BlackRock Inc. and Franklin Resources Inc., online brokerage firms Charles Schwab Corp. and Ameritrade Holding Corp., and exchange operators CME Group Inc. and NYSE Euronext Inc.

A spokesman for Bank of America said the calculation, based on its disclosures of "personnel" costs, "distorts reality and is a disservice to our associates." Other firms contacted about the analysis either declined to comment or didn't dispute the methodology. A few companies said the projections might be too high because of recent moves to rein in bonuses in response to public scrutiny.

Many firms reiterated that they need competitive pay packages to keep from losing employees to non-U.S. companies, private-equity firms and hedge funds.

While Wall Street firms such as Goldman and Morgan Stanley have historically set aside about 50% of revenue for compensation, the rate is lower at commercial banks, which include large numbers of less highly paid employees, such as tellers and other staff in bank branches that the Wall Street firms don't necessarily have.

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