Pay Czar Targets Salary Cuts
Top Earners at Firms Getting Aid Would See Compensation Shift From Cash to Stock

BY DEBORAH SOLOMON

WASHINGTON—The Obama administration’s pay czar is planning to clamp down on compensation at firms receiving large sums of government aid by cutting annual cash salaries for many of the top employees under his authority, according to people familiar with the matter.

Instead of awarding large cash salaries, Kenneth Feinberg is planning to shift a chunk of an employee’s annual salary into stock that cannot be touched for several years, these people said. Such a move, the most intrusive yet into corporate compensation, would mark the government’s first effort to curb the take-home pay of everyone from auto executives to financial traders.

Mr. Feinberg is expected to issue by mid-October his determination on compensation packages for 175 of the most-highly compensated executives and employees at the seven firms he oversees. The companies are: American International Group Inc., Bank of America Corp., Citigroup Inc., General Motors Co., GMAC Financial Services Inc., Chrysler LLC and Chrysler Financial.

The move will further reshape pay at those firms and could complicate efforts by some of those seven companies to attract top executives and employees.

The issue could be particularly acute for Bank of America, which is searching for a successor to Kenneth Lewis, who announced plans to resign as chief executive of the company last week. A Bank of America spokesman said the bank declined to comment on compensation issues regarding the chief executive. "We have been in close communication with Feinberg and our compensation going forward is very much in line with his guidance," the spokesman said.

Please turn to page A2
Pay Czar Set to Cut Top Earners’ Salaries

Continued from Page One

The Obama administration has tasked Mr. Feinberg with more closely tying compensation to long-term performance, something the White House believes will help prevent employees from taking unnecessary risks for short-term gains. A government official said shifting some salary away from cash and into stock will help achieve those goals.

The move is aimed squarely at salaries, not bonuses, which are restricted under rules passed by Congress earlier this year. Firms receiving bailout funds cannot pay cash bonuses to top executives and employees and must comply with a host of other restrictions, including capping bonus payments at one-third of total compensation.

It’s not clear what portion of an employee's salary will be diverted to stock but a person familiar with the matter said that in some cases it could be more than 50%. Indeed, Mr. Feinberg employed this strategy in his Oct. 2 ruling on pay for Robert Benmosche, the new chief executive of AIG. Mr. Benmosche’s salary was broken into two pieces—a $3 million annual cash salary and $4 million annually in AIG stock that cannot be touched for five years.

The Federal Reserve, which is planning to propose risk-based guidelines later this month that would affect the way tens of thousands of bankers get paid, is not expected to adopt Mr. Feinberg’s strategy in making its determinations. However, the Obama administration is hopeful that Mr. Feinberg’s pay structure will be viewed as something of a “best practice” and that other firms may voluntarily seek to use similar methods in determining compensation.

Andrew Williams, a Treasury spokesman, wouldn’t comment on Mr. Feinberg’s plans but said the pay czar was appointed “to help ensure that companies strike the right balance around their need to retain talent, reward performance, and protect the taxpayers’ investment. Obviously, we all have a shared interest in ensuring that those companies can return to profitability as soon as possible so that taxpayers can recoup their investment.”

Mr. Feinberg, an attorney who is receiving no government compensation for his work, has been trying to convey some of his thinking in a series of recent public speeches and interviews. He doesn’t plan to set any hard-dollar ceilings for executive pay and said he is sympathetic to the need for companies receiving government aid to pay enough to attract talented employees and remain competitive.

At a speech before the Chicago Bar Association last week, Mr. Feinberg said he will not have done his job if companies react to his decisions by saying “that’s great, we’re going to lose all our people and we’re not going to be competitive.”

But at the same time, the administration is under pressure to rein in what many view as excessive compensation at banks and other firms.

Mr. Feinberg has been working closely with the firms and many are aware of his plans regarding salary, people familiar with the matter said. Indeed, in the Chicago speech, Mr. Feinberg said the negotiations have been “a consensual process...I’m hoping I won’t be required to simply make a determination over company objections.”

—Dan Fitzpatrick contributed to this article.