## CASE STUDY: AIG

**Controversial Retention Bonuses at AIG**

American International Group (AIG), a behemoth insurance and financial services company, became notoriously famous in early 2009 for the payment of $165 million in retention bonuses to employees in its Financial Products unit. This was the same unit that was instrumental in bringing AIG to its knees and necessitating the infusion of billions of dollars in U.S. government bailout money. Although the near-collapse of AIG was significantly influenced by “soured trades entered into by the company’s Financial Products division,” the operations of other AIG units, such as the financial gambles of its Investments unit, helped cripple the company as well.[[1]](#footnote-1)

Rapidly mounting financial losses had been occurring in the Financial Products unit for some time. Consequently, AIG decided to unwind the business and shut it down. In early 2008, employees in the unit were asked to remain with the company through the shutdown and, essentially, to work themselves out of a job.[[2]](#footnote-2) To entice talented employees to stay and work, a contractual retention bonus plan was instituted.[[3]](#footnote-3) According to a report in *The Washington Post*, the Financial Products employees were repeatedly assured that AIG would honor these contractual obligations.[[4]](#footnote-4)

The bonus plan was highly favorable to AIG’s Financial Products employees, as there was no firm connection to their job performance. The unit’s employees were paid bonuses totaling $423 million in 2007, despite a paper loss of $11.5 billion on toxic real estate assets.[[5]](#footnote-5) The 2008 bonus plan,which was approved in March of that year just as the unit’s losses were beginning to surface,[[6]](#footnote-6) was “designed to kick in without regard to paper losses.”[[7]](#footnote-7) For 2008, paper losses on the toxic real estate assets ballooned to $28.6 billion, and total losses were more than $40 billion.[[8]](#footnote-8)

According to New York Attorney General Andrew Cuomo, who was threatening legal action against AIG, seventy-three Financial Products employees received $1 million or more in bonus payments. The top recipient, identified by *The Wall Street Journal* as Douglas Poling, received more than $6.4 million, whereas the next half-dozen top bonus recipients got more than $4 million each. In addition, another fifteen employees received $2 million or more, and fifty-one other employees received $1 million or more.[[9]](#footnote-9) “Of those people collecting more than $1 million, eleven have already left the company, Mr. Cuomo’s office said.”[[10]](#footnote-10)

When the retention bonuses were paid in March 2009, the U.S. Congress, President Obama’s administration, and the public were outraged. Under intense political pressure, AIG’s CEO Edward Liddy, who was working for only $1 a year, asked the “bonus recipients to cough up half their pay, despite fearing that resignations would follow.”[[11]](#footnote-11) In defense of the bonuses, however, Gerry Pasciucco, head of the Financial Products unit, observed that the “top bonus recipient, Douglas Poling, had successfully sold off several holdings in his area of responsibility, infrastructure and energy investments. He’s done an excellent job at the task of unwinding his book, of realizing value.”[[12]](#footnote-12)

In the ensuing emotionally charged days, employees of the Financial Products unit pondered what to do. According to one account, “employees have huddled in small groups in conference rooms off the division’s main trading floor in Wilton, Conn., debating what to do. Some have expressed worries about retaliation. One employee said he had instructed his wife to call the police in the event his identity became known and a news truck appeared at his home. Others commiserated that their children have been verbally abused in school. Employees have passed around emails from colleagues who opposed returning the payments.”[[13]](#footnote-13)

Some Financial Products employees decided to return their bonuses. Mr. Poling indicated he intended to return his bonus.[[14]](#footnote-14) “Fifteen of the top 20 recipients of the retention bonuses have agreed to give back a total of more than $30 million in payments.”[[15]](#footnote-15)

Others Financial Products employees opted to keep their bonuses, perhaps the most notable being Jake DeSantis, a Financial Products unit executive who received an after-tax bonus of $742,006.40. On March 25, 2009, in an Op-Ed contribution to the *New York Times*, DeSantis published an open letter to AIG’s CEO, Edward Liddy, wherein he resigned from his AIG position. His letter read in part:

After 12 months of hard work dismantling the company—during which A.I.G. reassured us many times we would be rewarded in March 2009—we in the financial products unit have been betrayed by A.I.G. and are being unfairly persecuted by elected officials. In response to this, I will now leave the company. … I take this action after 11 years of dedicated, honorable service to A.I.G. I can no longer effectively perform my duties in this dysfunctional environment, nor am I being paid to do so. Like you, I was asked to work for an annual salary of $1, and I agreed out of a sense of duty to the company and to the public officials who have come to its aid. Having now been let down by both, I can no longer justify spending 10, 12, 14 hours a day away from my family for the benefit of those who have let me down.[[16]](#footnote-16)

With respect to his intention to not return the retention bonus, DeSantis wrote,

I have decided to donate 100 percent of the effective after-tax proceeds of my retention payment directly to organizations that are helping people who are suffering from the global downturn. This is not a tax-deduction gimmick; I simply believe that I at least deserve to dictate how my earnings are spent, and do not want to see them disappear back into the obscurity of A.I.G.’s or the federal government’s budget. Our earnings have caused such a distraction for so many from the more pressing issues our country faces, and I would like to see my share of it benefit those truly in need.[[17]](#footnote-17)

DeSantis’s Op-Ed piece stimulated much discussion regarding the proper response to the retention bonus fiasco. Did DeSantis do the right thing?

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**Discussion Questions**

1. What types of work behaviors did AIG intend to encourage through its retention bonus plan?
2. Which needs seem to be important to the employees of AIG’s Financial Products unit?
3. Using the model of the individual-organizational exchange relationship, explain the relationship that employees of AIG’s Financial Products unit believed they had with the company. How was this exchange relationship violated?
4. Which motivation theory do you think has the most relevance for understanding the responses of the Financial Product employees to the implementation and unraveling of the retention bonus plan? Explain the reasoning behind your answer.
5. The amount of compensation earned by executives—as well as by professional athletes and famous actors/actresses and musicians—often sparks emotionally charged debate. Do you believe the $1 million plus retention bonuses received by seventy-three employees of AIG’s Financial Products was excessive? Why or why not?
6. What would you have done if you were one of the seventy-three Financial Products employees who received a retention bonus of $1 million or more? Explain the reasoning behind your answer.
1. S. Ng and L. Pleven, “An AIG Unit’s Quest to Juice Profit⎯Securities-Lending Business Made Risky Bets; They Backfired on Insurer,” *The Wall Street Journal* (Eastern edition) (February 5, 2009): C1. [↑](#footnote-ref-1)
2. H. W. Jenkins, Jr., “The Real AIG Disgrace,” *The Wall Street Journal* (Eastern edition) (March 25, 2009): A11. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. R. Smith and L. Pleven, “Some Will Pay Back AIG Bonuses,” *The Wall Street Journal* (Eastern edition) (March 19, 2009): A1. [↑](#footnote-ref-5)
6. R. Smith, J. Weisman, and L. Pleven, “Some at AIG Buck Efforts to Give Back Bonus Pay,” *The Wall Street Journal* (Eastern edition) (March 26, 2009): C1. [↑](#footnote-ref-6)
7. Smith and Pleven, “Some Will Pay Back AIG Bonuses,” A1. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)
10. Ibid. [↑](#footnote-ref-10)
11. Anonymous, “The AIG Mess Gets Worse,” *Business Week* (4125) (April 6, 2009): 6. [↑](#footnote-ref-11)
12. Smith, Weisman, and Pleven, “Some at AIG Buck Efforts to Give Back Bonus Pay,” C1. [↑](#footnote-ref-12)
13. Ibid. [↑](#footnote-ref-13)
14. Ibid. [↑](#footnote-ref-14)
15. Ibid. [↑](#footnote-ref-15)
16. J. DeSantis, “Op-Ed Contributor: Dear A.I.G., I Quit!,” *NY Times.Com*, http://www.nytimes.com/2009/03/25/opinion/25desantis.html (accessed July 2, 2009). [↑](#footnote-ref-16)
17. Ibid. [↑](#footnote-ref-17)