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Firms show execs the money

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April 3, 2006

BOSTON - Despite rising complaints about excessive compensation, directors at financial services companies that manage assets are handing out big bonuses to their top executives.

The average top executive received a \$3.35 million bonus last year, a nearly 30% increase from \$2.59 million the year before, according to an analysis of the compensation packages of nearly 50 top executives at a broad range of financial services companies.

The average base salary of executives dropped 1.25% to \$550,405.

Excluding stock options, the average top executive took home \$4.11 million in salary, bonuses and other forms of compensation in 2005, up 23.8% from \$3.31 million in 2004.

Executives also received, on average, an additional \$1.73 million in restricted stock, down 17.2% from \$2.09 million the year before, according to the data obtained through recent proxy filings.

"Business is good, and when business is good, people want to get paid," said Michael Kelly, a recruiter at Michael Kelly Associates in New York. "Trust me, that couldn't be truer on Wall Street.

The biggest winners include E. Stanley O'Neal, chairman and chief executive of Merrill Lynch & Co. Inc. in New York. He received a \$14.1 million bonus in 2005, up from zero the year before. That's on top of \$20.2 million that he picked up in restricted stock.

Including his \$700,000 salary, Mr. O'Neal's compensation totaled \$35.5 million last year, up from \$32 million the year before.

Bonus babies

Like many of his colleagues on Wall Street, he was rewarded by his company's strong results last year. Merrill's profits last year rose 15% to a record \$5.1 billion.

Similarly, Charles R. Schwab, chairman and chief executive of Charles Schwab & Co. Inc. in San Francisco, collected a \$3.94 million bonus last year. That was after refusing to accept a bonus for the previous two years so that the money could be put to use for other corporate purposes.

Schwab's 2005 profit totaled \$725 million, up from \$286 million the previous year. The performance surpassed its previous largest annual profit of \$718 million, posted at the height of the dot-com boom in 2000.

The increase in bonuses generally is a reflection of improved profitability at many financial services companies, said Paul Hodgson, a senior researcher

at The Corporate Library LLC, a corporate-governance research firm in Portland, Maine.

"Annual [bonuses] tend to be fairly reflective of actual achievements," he said. "On the other hand, in investment banking, as well as the financial services industry overall, annual bonuses have reached a level where they are so high that it seems to me that level of compensation should only be paid out for long-term achievements as opposed to short-term operational achievements."

The rise in bonus compensation comes as many investors are calling for an end to enormous compensation packages.

In November, the heads of 10 state-employee pension funds signed a letter that urged the Securities and Exchange Commission to pay more attention to how executives at public companies are paid. In that letter, the pension funds cited research that showed that CEO pay bears little correlation to corporate performance.

A few months later, the SEC proposed sweeping changes to the disclosure of executive compensation.

Among other things, the SEC wants companies to reveal - in plain English - the salaries, bonuses, stock option valuations, retirement benefits and other perks given to their highest ranking executives.

The SEC also wants full disclosure of executive perks worth more than \$10,000, rather than \$50,000 as the rules require.

The commission, which is hoping to adopt the proposal in time to get the changes reflected in next year's proxy filings, also wants companies to provide shareholders with a total compensation figure for each of its top executives.

Most companies disclose scattered details throughout their proxy statements about how executives are compensated - leaving it up to shareholders to decipher and aggregate.

As a result, some financial services companies already are starting to shed more light on their compensation practices.

Citigroup Inc.'s recent proxy, for example, includes a Personal Benefits Chart featuring the value of perks given to its top executives. That chart shows that New York-based Citigroup paid \$302,758 in security-related services for chairman Sanford I. Weill.

Citigroup also paid \$85,714 in financial and tax-planning services for him. Starting this year, however, Citigroup stopped paying for such services, according to a footnote accompanying the chart.

In its recent proxy statement, Ameriprise Financial Inc. of Minneapolis provides estimates of how much it expects to pay its executives in retirement benefits. James M. Cracchiolo, the company's chairman and chief executive, for example, is expected to collect an annual benefit of \$565,346.

"It's a big surprise for me," Tim Ranzetta, president of Equilar Inc., a San Mateo, Calif., proxy-research firm, said of the early shift toward more disclosure.

"I really expected most folks to keep everything the way it was until the SEC makes its move," he said. "Clearly, they are getting pressure from their investors and governance groups to put more stuff out."

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