

# AIG Freezes Executives' Salaries and Bonuses

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NEW YORK

American International Group Inc. said salaries would be frozen and bonuses canceled for its top executives, and company Chairman and Chief Executive Officer Edward Liddy's salary will be \$1 a year until 2010.

AIG announced its plans in response to a sharply worded inquiry from New York Attorney General Andrew Cuomo, who said the company must be "completely transparent" about any plans to award bonuses or pay increases to top executives.

"AIG is mindful that it must act prudently and, as such, must impose curbs on executive compensation," Edward Liddy, AIG's chairman and chief executive, said in a Nov. 25 letter responding to Cuomo that the company made public.

Liddy said that the company's top seven executives will not receive a 2008 bonus and will have their salaries frozen through 2009, and that salaries also would be frozen through 2009 for the 50 next-highest executives. Liddy said his compensation would only be in equity grants, which he said showed his "confidence in AIG and its team."

He also said AIG will develop a plan to guarantee that no money received through federal assistance will be used for bonuses in the future.

Referencing the restructured, \$150 billion federal bailout program that has kept AIG solvent, Liddy told Cuomo, "AIG is extremely grateful for the assistance we have received, and we know we have an obligation to use that assistance to help AIG recover, contribute to the economy and repay taxpayers."

"AIG has taken a positive step by eliminating bonuses and salary increases for its top executives," Cuomo said in a statement.

Cuomo's Nov. 18 letter followed AIG's announcement that it will pay \$503 million from deferred compensation accounts to about 5,600 workers to forestall an exodus of employees. The letter demanded to know about any plans to award bonuses or pay increases to top executives, saying there were "significant legal ramifications" to its actions (BestWire, Nov. 19, 2008).

In response to previous Cuomo inquiries, AIG froze \$600 million in deferred compensation and bonus

pools for its Financial Products group, which wrote more than \$500 billion notional in the credit default swap contracts that are at the heart of AIG's financial crisis, and put in place controls on travel and conferences involving its employees.

Most insurance subsidiaries of American International Group Inc. currently have a Best's Financial Strength Rating of A (Excellent) with a negative outlook. Shares of AIG were trading at \$1.67 in midday trading on Nov. 25, down 5.65% from the previous close.

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