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Will new executive pay rules cause a brain drain?

Obama administration's pay restrictions could lead to executive 'brain drain,' recruiters say

(AP) NEW YORK (AP) - The Obama administration's decision to cut the pay of top executives at companies on taxpayer life support will help quiet the popular outrage over excessive compensation. But it introduces a new concern: brain drain.

The 175 executives targeted by "pay czar" Kenneth Feinberg are not only the highest-paid but also considered among the most talented and productive. And competitors outside the restrictions are likely to woo them, recruiters and compensation expects say.

Losses like that could be devastating to the very companies the government spent so much money to save.

"These people are considered the brains of the machine. They are who can pull you through the tough times," said Steven Hall, who runs an executive compensation firm that bears his name. "This will give them reason to leave."

Feinberg announced Thursday that he has ordered seven companies that have received billions of dollars in taxpayer money to slash the base salaries of their top executives by an average of 90 percent and cut total compensation - cash, stock and perks - in half.

That applies to the five top executives and the next 20 highest-paid employees at Bank of America Corp., American International Group Inc., Citigroup Inc., General Motors, GMAC, Chrysler and Chrysler Financial.

Another 525 employees at the companies will also face new curbs on pay from Feinberg, but those details have not yet been released.

Those facing pay restrictions outside the executive suite hold leadership positions in areas like finance and investment banking at the banks, and in manufacturing, brand management and design at the auto companies.

They come with years of experience, whether it's making deals or overseeing car design. For example, Ford Motor Co., which is in far better shape than its two Detroit rivals, could lure auto executives who would be difficult for Chrysler and GM to replace.

"There will be a fallout," said Janice Reals Ellig, co-CEO of the executive search firm Chadick-Ellig. "Talent that is short-term-focused because they have big mortgages, college education payments and other things will feel more pressure to leave."

A Bank of America spokesman, Scott Silvestri, said competitors not subject to pay restrictions "already are exploiting this situation by identifying our top performers and using pay concerns to recruit them away for fair market compensation."

Feinberg, in speaking engagements over the last month, acknowledged the difficulty of balancing "conflicting principles" on pay: Compensation needed to be high enough to attract talent without rewarding risk.

But he also has to deal with Americans angry that their tax dollars have been used to save these companies. The Obama administration has blamed misplaced compensation incentives as one cause of the financial crisis.

Feinberg will limit cash salaries to $500,000. Executives who had been guaranteed certain compensation will have those payments made in company stock to be held over the long term.

Most other pay will also have to come in long-term stock awards, and executives won't be able to sell that stock until the company repays its bailout money. Incentive stock awards can only be paid if executives stick around for three years and the company pays back the government.

Feinberg also gets to sign off on any performance goals used as incentives.

The pay restrictions for all seven companies will also require any executive seeking more than $25,000 in special benefits - things such as country club memberships, private planes and company cars - to get permission for those perks from the government.

Feinberg did say exceptions were made "where necessary to retain talent and protect taxpayer interests." Base salaries above $1 million were approved for the new CEO of AIG, and for two employees of Chrysler Financial.

Under a package approved by Feinberg over the summer, AIG CEO Robert Benmosche will get a pay package of about $10.5 million.

Competitors of all seven companies that have repaid bailout money are free to pay whatever they want - although the Federal Reserve did propose Thursday to monitor executive pay at thousands of banks.

Goldman Sachs, which paid back its $10 billion in government bailout funds in June, has set aside $16.7 billion for compensation and benefits so far this year, on track for a record.

"People who produce the top revenues will always be in demand. They will always be wanted," said recruiter Danny Sarch, president of Leitner Sarch Consultants in White Plains, N.Y. "That's just capitalism."
