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AFTER OFF YEAR, WALL STREET PAY IS BOUNCING BACK

BANKS SET ASIDE MONEY

Paychecks and Bonuses Seen as Approaching 2007 Levels

By LOUISE STORY

The rest of the nation may be getting back to basics, but on Wall Street, paychecks still come with a golden promise.

Workers at the largest financial institutions are on track to earn as much money this year as they did before the financial crisis began, because of the strong start of the year for bank profits.

Even as the industry's compensation has been put in the spotlight for being so high at a time when many banks have received taxpayer help, six of the biggest banks set aside over $36 billion in the first quarter to pay their employees, according to a review of financial statements.

If that pace continues all year, the money set aside for compensation suggests that workers at many banks will see their pay — much of it in bonuses — recover from the lows of last year.

"I just haven't seen huge changes in the way people are talking about compensation," said Sandy Gross, managing partner of Pinetum Partners, a financial recruiting firm. "Wall Street is being realistic. You have to retain your human capital."

Brad Hintz, an analyst at Sanford C. Bernstein, was more critical. "Like everything on Wall Street, they're starting to sin again," he said. "As you see a recovery, you'll see everybody's compensation beginning to rise."

In total, the banks are not necessarily spending more on compensation, because their work forces have shrunk sharply in the last 18 months. Still, the average pay for those who remain — rank-and-file workers whose earnings are not affected by government-imposed limits — appears to be rebounding.

Of the large banks receiving federal help, Goldman Sachs stands out for setting aside the most per person for compensation. The bank, which nearly halved its compensation last year, set aside $4.7 billion for worker pay in the quarter. If that level continues all year, it would add up to average pay of $569,220 per worker — almost as much as the pay in 2007, a record year.

"We need to be able to pay our people," said Lucas van Praag, a spokesman for Goldman, adding that the rest of the year might not prove as profitable, and so the first-quarter reserves might simply be "sensible husbandry."

Indeed, last year, when Goldman lost money in the fourth quarter, it did not pay out some of the compensation it had set aside when earnings were stronger.

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in favor of particular units. JPMorgan Chase, for example, is setting aside what would total $138,234 on average for workers. But in the bank's trading and investment banking unit, if revenue stays at first-quarter levels, workers are on track to earn an average of $509,524 over the year. That figure was $345,147 in 2006.

To try to blunt criticism of high pay, some banks have introduced reforms to take back bonuses from individual workers whose bets later lose money. Moreover, executives say that for many well-paid bankers, a good portion of their bonus compensation is in stock, whose value can decline if the performance of the bank lags.

Representatives of several of the largest banks said much of their compensation budget covered expenses other than bonuses, like salaries, health care, pension plans and severance.

Still, the compensation expense is the only publicly disclosed figure related to pay at the banks, and it is the best figure for calculating pay per worker.

This expense includes money for year-end bonuses. For high earners, bonuses can account for three-quarters of pay.

Compensation is among the most cited causes of the financial crisis because bonuses were often tied to short-term gains, even if those gains disappeared later on. Still, as profits return, banks do not appear to be changing the absolute level of worker pay — or the share of revenue dedicated to compensation.

Historically, investment banks have paid workers about 50 cents for every dollar of revenue. The average is lower at commercial banks like JPMorgan Chase and Bank of America, because they employ more people in retail branches where pay is lower.

But every dollar paid to workers is a dollar that cannot be used to expand the business or increase lending. Some of that revenue, too, could be used by bailed-out banks to pay back taxpayers.

Wall Street, of course, has a long history of high wages. Not all that long ago, most investment banks were private partnerships, and the workers were also typically the owners. Even when those firms began listing their shares on public stock exchanges, a standard was set in which half of their revenue was paid out to workers.

Their argument is that such lofty pay retains the best employees, who help earn more money, ultimately benefiting shareholders. The set-asides in the first quarter for pay can also help raise morale within the banks.

Some shareholders, however, contend that the earnings pie should be reapportioned. They argue that shareholders have lost a lot of wealth as bank stocks spiraled, so as revenue picks up, more money should be returned in the form of dividends.

"The money should go to shareholders," said Frederick E. Rowe Jr., a member of the pension board in Texas and the president of Investors for Director Accountability, a nonprofit group. "The fact that the compensation as a percentage of revenue has not gone down is an indication that the root problem has not been addressed."

Some analysts point to Morgan

New calls for sharing earnings with stockholders.

Stanley as an example of the compensation conundrum. The bank had a dismal quarter, losing $578 million, but still put aside $2.08 billion for compensation. That amount, though lower than the compensation at Goldman, was 68 percent of revenue.

Mr. Hintz, the analyst, said the bank could have avoided losing 57 cents a share if it had reserved less revenue for compensation.

In an interview, Colm Kelleher, Morgan Stanley's chief financial officer, said the compensation set-aside was based on the bank's full-year earnings expectations, not just the first quarter. And Morgan could drop its compensation expense only so low, he said, because much of it consists of fixed expenses, like salaries.

"The number of fat cats making loads of money is much less than you think," he said.

If shareholders do not like compensation policies at banks, they can simply sell their shares. Still, several banks cut bonus pools last year, as losses mounted. And the government is restricting certain pay at banks that received bailout money.

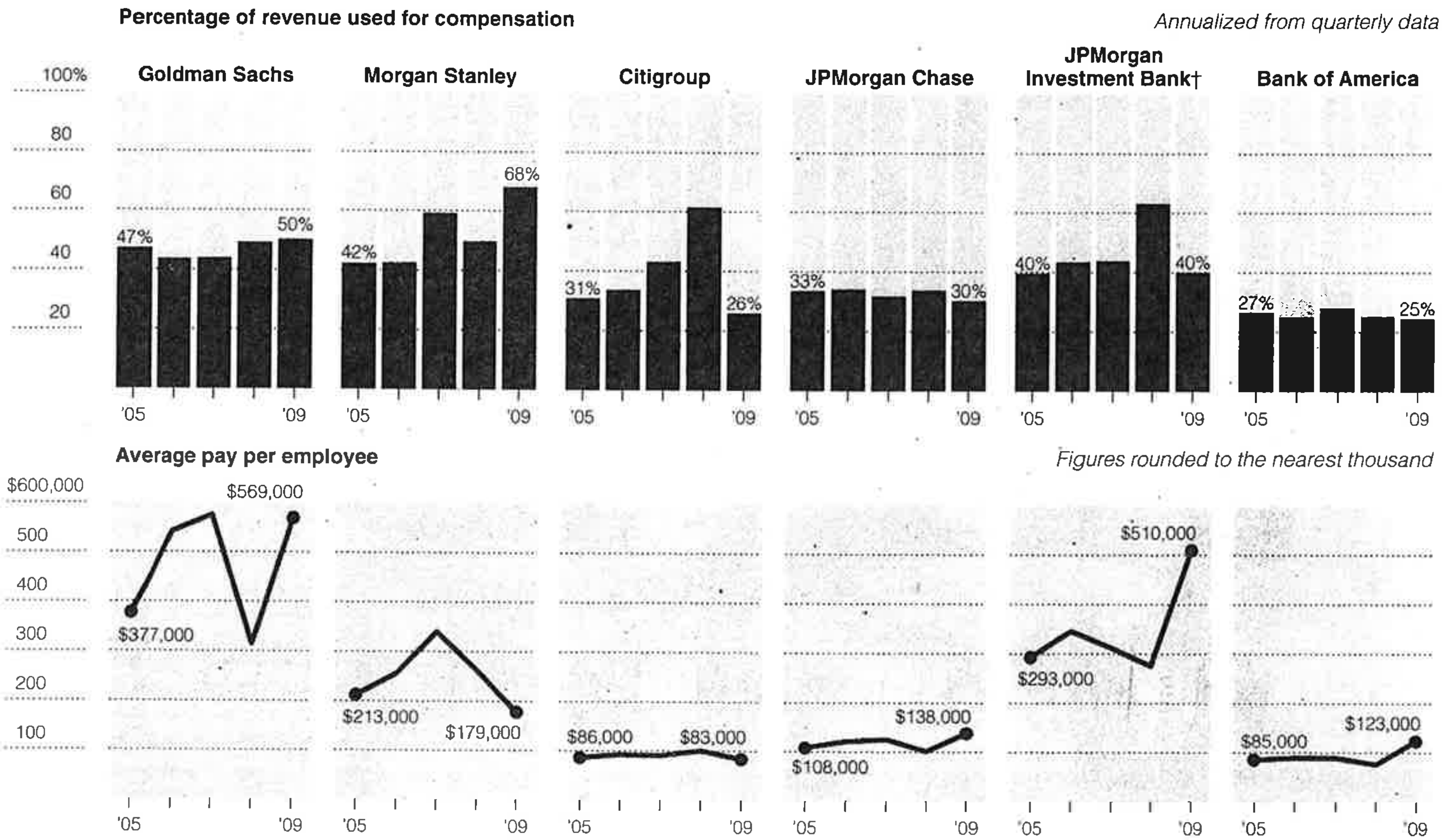
The rule, which applies only to the most highly paid workers, has prompted some banks to try to return the government money as fast as possible.

Executive recruiters in the sector say prospective recruits are still being offered pay packages on par with those of earlier recruits. Some banks that received taxpayer help are even offering guarantees to recruit workers.

Part of the way banks are supporting high pay for their workers is by shrinking their work forces. Citigroup, for example, has dismissed 65,000 people since the start of 2007. That has left Citigroup paying the same amount on average to its remaining workers, though the quarterly cost to Citigroup is down by 25 percent, to $6.4 billion.

A Survivor of the Financial Crisis: Pay Levels at Investment Banks

Using the first quarter of 2009 as a guide, some of the biggest Wall Street firms will spend about the same on employees this year as they did before the financial crisis by setting aside more or at least about the same amount of their revenue to pay them.



† A division of JPMorgan Chase that includes 26,142 employees in areas like trading and investment banking.

Sources: company reports

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