# US: CEO pay continued upward spiral in 2002

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The sharp drop on Wall Street notwithstanding, the typical CEO of a major US corporation saw his pay packet continue to increase in 2002, according to a number of surveys released this spring. The largest survey, conducted by *Business Week* magazine, shows that the median pay for the 365 CEOs covered increased by 5.9 percent to $3.7 million. An earlier survey by *Fortune* magazine, confined to 100 of the very largest companies, showed a much larger percentage increase of 14 percent, to a median annual salary of $13.2 million. By contrast, the total return of the Standard & Poor's 500 companies was down 22 percent last year.

At the same time, the median weekly paycheck for workers in the US fell by 1.4 percent last year, according to a recent report by the Economic Policy Institute in Washington. The study found that both white-collar and blue-collar pay are falling and attributed the decline to the effects of growing long-term unemployment on the labor market.

Topping the *Business Week* list at $194.9 million was Alfred Lerner, chairman of the credit card banking giant MBNA, who died last October. In addition to his $3 million base salary and $6 million bonus, and a stock grant valued at over $17 million, he cashed in $168.9 million of accumulated stock options in 2002. At year's end, his estate still had $53.5 million more worth of options to exercise. Apparently touched by his family's loss, the MBNA board of directors—which includes both Lerner's widow and their son—voted to continue Lerner's full salary from his death until the end of the year—a perk no ordinary worker's family could ever dream of receiving.

Next on the list, at $116.6 million, came Jeffrey Barbakow, the now ex-CEO of the scandal-plagued Tenet Healthcare, who resigned under pressure last week. The bulk of his 2002 remuneration came from the $111 million worth of options that he exercised that January, selling the stock before last October's announcement of multiple fraud investigations led to a 70 percent drop in its price.

The major charges against the nation's second largest hospital chain involve overbilling Medicare for its most expensive operations. While denying any wrongdoing, the company has revised its billing practices so dramatically that its first-quarter income from these procedures dropped from $197 million last year to only $18 million this year. Tenet is also charged with employing two surgeons who performed hundreds of unnecessary heart operations, among other wrongdoings.

In view of its $20 million loss, the company has announced plans to sell off or consolidate 14 of its 140 hospitals, laying off 300 workers. Tenet has also waged a bitter battle against unionization efforts by the California Nurses' Association, going so far as to sign a sweetheart contract with the SEIU, denying nurses their main demand for a pension plan.

Barbakow was brought in to rescue the company 10 years ago from earlier fraud charges. Under its former name, National Medical Enterprises, the psychiatric division was accused of physically restraining patients so it could continue treating them until their insurance benefits ran out. Barbakow's forced resignation constitutes a tacit admission that any changes made during his tenure were primarily cosmetic.

While the pay median—the level at which 50 percent earn more and 50 percent earn less—continues to increase, the *Business Week* compensation survey showed that average CEO pay has decreased substantially, by 33 percent to $7.4 million. The average is distorted by a small number of particularly high flyers, such as Oracle Corp.'s Larry Ellison, who raked in $706 million in 2001 versus only $39,000 in 2002. After cashing in a hoard of options in early 2001 just before the stock tanked, he took neither salary nor bonus in 2002. However, he still owns company stock valued at $15 billion, along with another $265 million worth of options left to exercise, making him one of the world's richest men.

Last year's survey showed that seven CEOs made more than $100 million in 2001, while in 2002 only two reached that level. (Another executive who was not a CEO, the former chief financial officer of Tyco, Mark Swartz, took home $136 million before resigning. He and Tyco's ex-CEO Dennis Kozlowski, who earned $82 million before his own resignation, face federal charges of "enterprise corruption" for illegally looting company assets above and beyond their "legitimate" pay.)

Further bringing down the statistical average, a few other CEOs demonstratively turned down salary and/or bonus packages, in an attempt to deflect mounting criticism of high executive compensation at a time of corporate scandals and falling profits. One such CEO, Sanford Weill of Citigroup, refused his annual bonus, which had been $17 million the prior year. He was not compelled to make do with just his base salary of $1 million, however. This was supplemented by $11.8 million he accrued by cashing in stock options from earlier years, and he was awarded new options on another 1.1 million shares. In February of this year, Citigroup's board of directors granted Weill options on yet an additional 1.5 million shares, which one outside consultant valued at about $14.5 million.

While median pay most accurately reflects the trend, the sharp decline in average CEO pay is not without its impact. The bursting of the stock market bubble has slowed the path to unimaginable riches that so many corporate profiteers took in the 1990s. While for workers, the economic downturn threatens their jobs and their very existence, those running the corporations are demanding ever-greater government intervention to help make them "whole" for lost opportunities in the market. This helps fuel the constant push for more tax cuts at home and for colonial plunder abroad.

Significantly, according to an analysis by the liberal think tank United for a Fair Economy [www.faireconomy.org], median CEO pay at major defense contractors rose by a whopping 79 percent in 2002. At $11.3 million, the average defense contractor CEO took home 577 times the amount of an army private in Iraq, who made just $19,585 including combat pay.

Besides salary, bonus, and stock and/or option awards, which have aroused so much public ire, executives have a number of other ways to reward themselves. Among the most lucrative are supplemental pensions available only to the top executives, sometimes only to the CEO. Known as SERPs (Supplemental Executive Retirement Plans), they are offered by 76 percent of the Fortune 1000 companies and provide a defined benefit based on the executive's top earning years. By contrast, nearly half of all private sector workers have no pension plan at all, while only 19 percent of are covered by a defined benefit plan, as more and more large companies convert to less costly defined contribution or cash balance plans.

To pump up retirement income further, many SERPs contain features such as adding years of service to the pension calculation, or adding years onto the executive's age. Delta Air Lines' CEO Leo Mullin, whose $13 million pay package stirred controversy in light of the company's $2.4 billion in losses over two years, was credited with 25 years' service after working only 3 years. In addition, the company kicked in $8.24 million to fund Mullin's benefit, placing it out of reach of creditors in the event of bankruptcy, as well as to pay any taxes owed for his handsome retirement package.

At the same time, Delta announced plans to convert its defined benefit plan covering most workers to a cash balance plan, saving $500 million by cutting in half pensions of workers closest to retirement.

American Airlines' ex-CEO Donald Carty, now age 56, is also having years added to his service in order to be eligible for a $1 million-plus annual pension. He resigned under fire at the end of April after angering workers (who, under threat of bankruptcy, had just accepted $1.8 billion in annual wage cuts) by hiding the existence of not only a fat "retention" bonus plan for top executives, but also $41 million the company had set aside in a special trust to ensure that executives such as Carty would get their pensions even if the company filed for bankruptcy.

US Treasury Secretary John Snow took his pension as a $33 million lump sum payment when he left his job as CEO of the transportation conglomerate CSX last January. To qualify for this hefty sum, he was credited for 19 years that he never worked. As a CSX spokesperson said at the time, "John Snow's benefits are consistent with executives' at Fortune 500 companies."

Yet another executive benefit is the chance to defer on a pretax basis as much as 100% of salary and bonus, holding it in a company account guaranteed to pay above market interest. The pharmaceutical giant Wyeth paid its chairman John Stafford $3.8 million in interest in one year alone on his deferred-compensation account, in which he had accumulated $37.5 million.

CEOs can add millions to the value of their compensation by claiming other retirement perks without having to disclose them in regulatory filings. Besides his $9 million annual pension, retired General Electric CEO Jack Welch was granted free use of a company-owned luxury apartment in New York City—complete with flowers, cleaning services and postage—use of the company jet, country club memberships, a box at the opera, and more, which Welch himself valued at over $2 million a year. He agreed to reimburse GE for these perks only after their existence was revealed in divorce papers his wife filed last September.

The "golden parachute" is another way CEOs have of ensuring their financial well-being. If their company is bought out, or should they resign or be fired, rather than face the unemployment line, they often receive a multimillion-dollar windfall. William Aldinger was chief executive of the consumer loan company Household International when he negotiated its sale for $14.2 billion to the British banking giant HSBC. A "change of control" clause in his contract triggered a $20.3 million severance payout, even though HSBC retained his services to continue running the company, only as the US subsidiary of HSBC. His new employment contract contains a similar provision, which will pay out again if things don't work out with the new owner.

Mirroring the golden parachute is the "golden hello," a signing bonus to lure a CEO to one company from another. After losing $220 million in 2002, electronics manufacturer Honeywell sent off its departing CEO with a $4 million bonus plus 200,000 shares of stock, then induced David Cote of defense contractor TRW to take the job with a package valued at $69.5 million, including $3.375 million in cash guaranteed annually for 5 years, plus $25 million worth of stock and 2.2 million stock options.

Besides all of this, CEOs use their positions in other ways to enrich themselves without it showing up on their company's books. According to an investment firm's complaint to the SEC, Conrad Black, chairman and CEO of the newspaper publisher Hollinger International, along with other senior executives received $73.7 million in their personal accounts since January 2000 for agreeing not to compete with newspapers that Hollinger sold off. The largest such payment of $52 million was made to Lord Black and his associates by Canada's largest newspaper chain Can-West when it bought Hollinger's Canadian newspapers for $2.1 billion in November 2000.

Revealing yet another form of ill-gotten gains, Philip Anschutz, former chairman of the scandal-ridden telecommunications provider Qwest Communications, recently agreed to donate to charity $4.4 million he made in personal profits from shares in initial public offerings that were reserved for him by Citigroup's brokerage unit Smith Barney at a time when Citigroup was seeking additional business from Qwest. Anschutz is one of four executives who have been sued by the New York State attorney general for the return of such gains totaling $26.7 million, but the practice is considered to have been much more widespread.

As these US executives secure their fortunes, they are pushing legislation that threatens the already shaky future of their own workers. One measure promoted by the airline industry would allow companies to postpone mandatory catch-up payments into their severely underfunded pension plans until 2008, then spreading out the payments over another 20 years.

Under another bill pending in Congress, supported by the United Auto Workers (UAW), manufacturers would be able to modify mortality tables to shorten the expected lifespan of their blue-collar workforce—without lengthening the expected lifespan of their white-collar workforce, or of their higher income workers, who also live longer on average—justifying thereby a reduction in funding for lifetime benefits. Another provision of this bill would allow them to stretch out funding needed to make up for recent pension fund investment losses over 30 years—an even longer time than what the airlines are asking for.

The spectacle of unbridled greed at the top when more and more people face drastic pay cuts and layoffs has provoked concerns in some leading business circles about the loss of public confidence in the free enterprise system. Early last month, Warren Buffett, who takes less than $300,000 a year as head of the highly profitable investment firm Berkshire Hathaway, bemoaned the "enormous disparity in the rates of compensation between the people at the top and the people at the bottom." Concerned about the potentially destabilizing effect that this disparity could have on his own portfolio, worth over $35 billion, Buffett urged large shareholders such as pension plans and mutual funds to force corporate boards to rein in executive pay.

Similarly, the AFL-CIO has promoted over 150 shareholder resolutions to reduce executive pay, two of which, at Tyco and Hewlett-Packard, have even been passed. However, such resolutions are not binding on the companies. Indeed, Tyco responded to the corruption of its outgoing management by paying its new CEO Ed Breen $62 million for only a few months' work.

A US Senate hearing last week on excessive executive pay drew little media attention, as all eight CEOs who were invited to testify refused to appear. The eight included Tyco's Breen, GE's Welch, Honeywell's Cote, Delta's Mullin, Oracle's Ellison, and Tenet's Barbakow.

The system of share ownership is not, as pro-capitalist ideologues would have us believe, the pinnacle of democracy. Far from each person having an equal say, there is no limit to the number of shares one person can own, ensuring control of the corporations by the wealthy few. Boards of directors, especially their compensation committees, are generally selected from among current and former chief executives of other major corporations, who justify their own outrageous pay by pointing to the "standard" which they have helped to set at other companies.

More fundamentally, the interest of shareholders is in producing a profit, a portion of which is returned as dividends. Their concern is not executive remuneration *per se*, but in making sure management delivers on the bottom line. By jumping on the "pay-for-performance" bandwagon, the AFL-CIO is promoting those managements that carry out the most ruthless attacks on their workers in order to deliver "value" to their shareholders.

Even Buffett acknowledged that small shareholders could have no influence. Instead, he urged pension plans and mutual funds to press for reforms. However, those who run such funds are themselves competing to manage the pension and other moneys of the very companies whose executives' pay they are being asked to cut. As for Buffett himself, he vowed to withdraw from the public debate and work behind the scenes, saying, "I am not going to lead a revolution."