

People can argue all they want about bonuses being a requirement to keep good employees. It's a lie. Good employees with big cash bonuses due, stay at least until they are paid. Once they get paid, they see themselves as free agents, pure and simple.

Retaining GOOD employees has absolutely nothing to do with the bonus they have already earned. Keeping good employees has everything to do with their next deal.

Here is what good employees want.

They want the ability to be good at their job.- Are there any stellar revenue producers worth a damn that are going to stay at AIG ? Hell no. Can you imagine the opening line of an employee from any of the AIG insurance lines... "Hi, Im from AIG and I'm here to help". Yeah, that will help close a deal. Every salesperson worth a damn over there knows they don't have the capital to take risks, which is what they need to do deals and make money. They also know that all the easy money has already been made and if you work at AIG you are going to be under a microscope with everything you do.

Of course, AIG competitors know this as well. You can bet every AIG employee is playing out the bonus season. The good employees are gone once the bonus issue is resolved. They are off to a company that has capital to cover the insurance and other products they get paid to sell.

And this doesn't only apply to AIG. Any financial company without capital to backstop financial products is going to lose their best people.

Good employees also want to be in demand. They want to be loved and they know the only way to get the love is to test the free agent market

The ultimate arbiters of efficient markets are free agent salespeople. They are going to follow the money. They will do more homework than you and make sure they have every opportunity to get paid. Not only will they follow the money, they will play off the desperation of companies that feel they are going to lose their people as leverage for their next job.

In negotiating their new deals, these free agents are going to know the following:

- a. There is a very good chance that stock prices will go up.
- b. They are going to get paid very generous stock option packages because stock prices are depressed
- c. If they can get huge numbers of options at current prices, any decent increase in the market over the term of their vesting periods can make them 10s, if not 100s of MILLIONS of Dollars.

The only possible way for Citi, AIG and the banks that are struggling are going to get and retain employees is to overpay with stock options.. They know they can't offer them a great deal making environment in order to be great at their jobs. So instead, they have to overcompensate them in options. Their pitch will be simple. We are giving you 1mm, 2mm, 10mm options at 50c, or \$1.50, or \$4, whatever. Remember when our stock was 50 last year ? Well if we only get back to 10, you are rich.

That my friends is a story any free agent will listen to. For that much money, like in pro sports, they will play for a losing team. That is what retention for many struggling financial companies will look like.

The good banks like Goldman will offer them the chance to be great at their jobs, and make some money if the stock goes up to prior levels. These employees will be able to make real money from the deals they close. The bad banks will offer stock packages that will seem like lottery tickets.

I can't say that I know about any specific packages being offered. I don't. What I do know is this. If and when, next year or even 2 or 3 years from now, a few of the banks that are currently struggling start paying back their tarp money, the headlines are going to be outrageous.

The fact that they can pay back the bailout money will probably mean they are in good shape. Which probably will mean that the shares are selling for far more than they are now.

Which all in all translates as follows, the banks that needed the Tarp money the most and survive, will end up having execs that make the biggest hauls from stock compensation.

The headlines will read " Bank Execs make 100 million in just 3 years from stock options as taxpayers wait for their profits "

Rather than arguing about how execs are getting paid for yesterday, our politicians should discuss the best way to pay them for this coming and future years. Thats when the real money will be made and everyone who is any good in the financial industry already knows it. Its just the politicians that dont