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This Bonus Season on Wall Street, Many See Zeros

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Bonus season is fast approaching on Wall Street, but this year the talk does not center just on multimillion-dollar paydays. It's about a new club that no one wants to join: the Zeros.
Drawn from a broad swath of back-office employees and middle-level traders, bankers and brokers, the Zeros, as they have come to be called, are facing a once-unthinkable prospect: an annual bonus of ... nothing.

"It's going to a cause a lot of panic on Wall Street," said Richard Stein of Global Sage, an executive search firm. "Everybody is talking about it, but they're actually concerned about it becoming public. I would not want to be head of compensation at a Wall Street firm right now."

In some ways, a zero bonus should not come as a surprise to many bankers. As a result of the 2008 financial crisis, Wall Street firms like Goldman Sachs and banks like Citigroup raised base pay substantially in 2009 and 2010. They were seeking to placate regulators who had argued that bonuses based on performance encouraged excessive risk.

At Goldman, for instance, the base salary for managing directors rose to $500,000 from $300,000, while at Morgan Stanley and Credit Suisse it jumped to $400,000 from $200,000.

Even though employees will receive roughly the same amount of money, the psychological blow of not getting a bonus is substantial, especially in a Wall Street culture that has long equated success and prestige with bonus size. So there are sure to be plenty of long faces on employees across the financial sector who have come to expect a bonus on top of their base pay.
Wall Streeters typically find out what their bonuses will be in January, with the payout coming in February.

One executive, whose firm prohibited discussing the topic with the news media, said the bump in base salaries had confused people, even though their overall compensation was the same. "People expect a big bonus," this person said. "It is as if they don't even see their base doubled last year."

Dealing with the Zeros can be complicated. "It's a real headache," said another senior banker, who asked not to be identified because the topic is so volatile at his company. There has been so much grousing that in some cases, he said, "we'll throw $20,000 or $25,000 at each of the Zeros so they're not discouraged."

"No matter what we pay people, it is never enough and they always find something to complain about," this banker said.

While Zeros are turning up in the ranks of back-office employees and midtier bankers and traders who typically earn $250,000 to $500,000, their bosses way up the compensation ladder are still expected to notch handsome paydays in the millions.

In terms of overall profit, Wall Street is on track for one of its best years ever, although it will trail 2009, which was pumped up by federal bailout money and the rebound from the financial crisis.

In the first three quarters of the year, Wall Street earned $21.4 billion, putting it on track to easily outpace 2006, when the economy was booming, and well ahead of the New York City government's initial estimate of $20.6 billion for profit in all of 2010.

This year, Wall Street's five biggest firms have put aside nearly $90 billion for bonuses. But bankers and compensation experts say that bonus payouts will vary widely this year, much more than in the past when a rising tide lifted all boats. And just as junior and senior bankers face varying fates, so some departments are expected to fare better than others.

At JPMorgan and Bank of America Merrill Lynch, for example, the leveraged finance group could receive a 10 to 20 percent bump from last year, because of record issuance of junk bonds. Equity traders, on the other hand, are looking at a 10 to 20 percent drop because stock trading tailed off during the second half of the year.

At Morgan Stanley, equity trading was stronger, but bond traders are most likely looking at smaller pay packages.

To be sure, the best performers on the most profitable desks will still receive substantial bonuses. At Bank of America, top directors might earn a $1 million bonus while top vice presidents could net $600,000, according to one banker there.

What's more, echoing trends in the broader economy, Wall Street chief executives are almost certain to escape the fate of the Zeros, with bonuses climbing into the stratosphere as the shock of the financial crisis fades and pay for the top tier climbs back toward historical averages. Morgan Stanley is perhaps feeling the most pressure. In 2009, it paid out a record 62 percent of its net revenue in compensation and benefits; its chief executive, James P. Gorman, vowed to bring that down to bolster profits. But early this year, the firm's board decided to start hiring in an effort to rebuild businesses in the wake of the financial crisis.

Now, having added 2,000 people in 2010 yet lacking any growth in revenue, the firm has little choice but to scale back on bonuses. Compensation will be lowered across the board, but there will still be plenty of Zeros, said one person familiar with Morgan Stanley's compensation process.

Recently, Mr. Gorman has been telling employees that the selective, short-term pain on compensation will give the firm credibility with shareholders and help Morgan Stanley over the long haul, calling 2010 "the year of differentiation," several employees said.

Even if overall salaries for Wall Streeters remain generous, the new zero-bonus culture is likely to change spending habits, said Robert J. Gordon, a professor of economics at Northwestern. Bonuses are spent differently than more predictable income, he said, citing "impulsive purchases, like jewelry from Tiffany's for a girlfriend."

Zero bonuses are likely to have a bigger impact on New York's economy, which has grown dependent on the largess of Wall Street firms. Whether it's for jewelry, high-end clothing or apartments, bonus spending has long fed a postholiday boom in January and February, especially in Manhattan and expensive suburbs like Greenwich.

"I suspect there will be some pain in the short-term," said Robert D. Yaro, president of the Regional Plan Association, an independent research group in Manhattan.

"We've all heard the stories of someone showing up in Greenwich to buy a $10 million house and paying cash on the spot," he added. "But in the long term, this is probably healthier for Wall Street and the regional economy. Wall Street shouldn't be a casino."