

REPORT ON GOVERNANCE



10/5/2010

By the Academy's Governance Task Force

Report to the Academy's Board of Directors, on the review, analysis, and recommended improvements on the Academy's governance structure.

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Report on Governance

BY THE AMERICAN ACADEMY OF ACTUARIES' GOVERNANCE TASK FORCE

INTRODUCTION

The Governance Task Force (GTF) was appointed by President Ken Hohman to address a variety of governance issues. Those issues began accumulating with the strategic planning work done a few years earlier, but were brought to critical mass with issues surrounding the election process in 2009. The Task Force was given the following mission:

The GTF has been established to review, analyze and recommend improvements on the Academy's governance structure, to fulfill the Academy's mission and strategic plan. GTF members represent a broad cross-section of practice in the profession. The GTF is a presidential committee tasked with examining governance issues of concern to its membership and its publics. The GTF will examine structure, function and process; assessing each as to their effectiveness and appropriateness in supporting the mission and goals of the Academy. The GTF will gather information, analyze it, and make specific recommendations to the Board of Directors.

In pursuing this mission, the GTF agreed to limit the scope of their consideration to be within the context of the Academy's existing Mission and Strategic Plan. Some of the questions and concerns raised to the GTF were deemed to be outside this scope, as noted later in this report. The Academy Board may ultimately choose to address these issues, but the appropriate place for such discussion is at the Board, rather than the GTF.

Composition of the Task Force

A call to members was sent out, and a website established, to identify volunteers for staffing of the GTF. Names of volunteers were also gathered in writing and verbally. Fourteen members of the GTF were selected from this pool of 85 volunteers, using the following considerations:

- It was important to have some element of input from members who were not part of the existing power structure. This will ensure against insular thinking;
- At the same time, making solid decisions regarding the Academy's future requires a good understanding of the Academy's processes, structures, and environment. The majority of members should have as much of such a knowledge base as possible;
- It was important that all constituencies feel represented: By area of practice, type of employer, and sister organization;
- It was important to get a spread of seniority;
- To the extent that they could be identified, it was important to recruit people who could arrive with open minds on the subjects at hand. In this regard, efforts were made to avoid members who were volunteering in order to achieve a particular solution, even before hearing the opinions of others; and

- As discussed with the Board at their October, 2009 meeting, current board members were considered to have volunteered.

There were three additional members: (1) the chairman, appointed by the President, (2) the President, and (3) the President-elect.

The Volunteer survey produced the following volunteers:

PRACTICE AREA	# VOLS
Casualty	15
Health	17
Life	21
Misc	1
Other	4
Pension	16
Risk Management	11
Total	85

Two volunteers volunteered twice. They were counted once. By seniority,

MAAA in	# VOLS
1960s	5
1970s	16
1980s	30
1990s	15
2000s	19

By employer,

ER TYPE	# VOLS
Consulting	39
Insurance Department	5
Insurance Organization	27
Misc	1
Organization Serving Insurance Bus	2
Other	1
Other Government	3
Retired	4
Unaffiliated	2
University	1

This analysis resulted in the following GTF composition:

NAME	AREA	YR	ER
Bill Bluhm (Chair)			
Ken Hohman (ex officio)			
Mary Frances Miller (ex officio)			
Tom Bakos	Life	1970s	Consulting
Perry Kupferman	Life	1970s	Ins Dept
Tom Campbell	Life	1980s	Ins Org
Nadine Orloff	Pension	1980s	Consulting
Steve Rosen	Pension	1970s	Consulting
Benoit Labrosse	Pension	1990s	Consulting
Damian Birnstihl	Health	1990s	Ins Org
Mike Abroe	Health	1970s	Consulting
Katherine Musler	Health	2000s	Ins Org
John Schubert	H & W	1980s	Consulting
Bob Miccolis	Casualty	1970s	Consulting
Gareth Kennedy	Casualty	2000s	Consulting
Roosevelt Mosley	Casualty	1990s	Consulting
Jack Cumming	LTC	1960s	Retired

By seniority,

MAAA in	# VOLS	# TF Members
1960s	5	1
1970s	16	5
1980s	30	3
1990s	15	3
2000s	19	2

By Discipline,

Discipline	# VOLS	# TF Members
Health	17	3
Life	21	3
Casualty	15	3
Pension	16	3
Other	16	2

Issues Addressed by the GTF

The GTF began with the issues brought to it by its members and by the Board. In addition, it collected questions and issues raised on the Academy's website created for this purpose. Early in its proceedings, the GTF read through all issues, and created a comprehensive list of issues for discussion. That compilation is in Appendix One.

As the GTF began discussing the issues, it became clear that a number of the issues in the list are highly interdependent. Choosing a particular solution for one of them led to implications about the others. Ultimately, we agreed that, for certain major issues (such as Board composition) it would be best to combine the related questions, and address them via *scenarios* of solutions.

Other issues in the original list were ultimately felt to be outside the scope of the GTF's mission, and were deleted from further discussion.

Process Followed by the GTF

The task force (as a whole) met twice in person and had four conference calls. In addition, there was communication via emails and through the Academy's SharePoint site, where materials were posted for GTF use. Ad hoc subgroups, created for specific tasks, also had a number of phone calls.

The GTF used the services of a paid consultant with experience in the association governance area, to help us in framing and navigating our discussions. Our consultant was Mr. Phil Lesser. He provided both a theoretical commentary (to the extent our questions fell within his expertise and understanding of "best practices"), and practical experience (having worked with a number of professional associations on this subject).

The task force used a variety of written and verbal material in its deliberations:

- Documents pertaining to governance at other actuarial organizations, Member survey responses, various literature on governance provided by the consultant, Academy Bylaws, current strategic plan, etc.
- Discussion with our consultant and some former Academy Presidents, to gain historical perspective.

The GTF's main purpose was to fully discuss the issues at hand, airing all points of view and evaluating them. We often did not reach unanimous agreement, but did reach an understanding of exactly what the values or judgments were that were advising the differing opinions. We were all surprised, however, by how much agreement we were able to reach in previously contentious areas of discussion.

Initial drafts of portions of this report were prepared by sub-groups of the GTF. This compilation was edited by the chairman, then circulated to the GTF for discussion and final conclusions. A final conference call was held for all GTF members, to opine on the near-final draft, and final edits were done via email.

We would like to thank the Academy staff supporting this effort, all of whom were terrific in their responsiveness, tactfulness, and efficiency. These included Claire Mickelson, Andrew Simonelli, Craig Hanna, Gino Vissicchio, and Mary Downs.

ANALYSES AND RECOMMENDATIONS

There are eight major categories of analysis and recommendation. For each category, the discussion was by the whole task force, as was the final report.

Issues Related to the Nature of the Academy

As the task force discussed the major issues related to elections, nominations, and structure, it eventually became clear that there are differing views on what the nature of the Academy should be; whether the Academy should ultimately be (1) purely a member organization, (2) purely an association of associations, or (3) a hybrid of the two (as it currently functions). Many of the proposed solutions regarding nominations and elections presume one or the other view of the Academy's nature.

Despite the ability to discuss this question ad nauseum, we concluded that discussion of the merits of change from the current hybrid nature of the Academy is outside our mission's scope. In particular, our adoption of the Academy's mission and strategic plan makes clear that a hybrid Academy has been explicitly (and unanimously) chosen by the Board that adopted the current strategic plan. We believe that the Board is the only group with sufficient knowledge of the various implications of these choices on our membership and our sister organizations.

The GTF believes the choice of fundamental nature of the Academy is one that must be made by the Board. At the same time, there was a general perception among the GTF that the current hybrid system actually works quite well, and some sentiment that "if it ain't broke, don't fix it."

We felt it would help advise the Board's discussion of these issues, however to analyze and articulate the implications of the alternative choices. This report reflects these alternatives, where appropriate.

Board and Officer Nominations and Elections

Presidential Succession

An important subject discussed by the GTF was the Presidential succession track (separately from the question of how someone should be chosen for that track.) An elements of this discussion was the perceived fatigue (leading to lack of engagement) by some Penultimate Presidents (beyond their chairmanship of the Nominating Committee). A number of past presidents also expressed regret that they didn't feel they had enough time in preparation for their presidency.

Putting those pieces together, the GTF developed the idea of creating an "Executive Vice President" (Executive VP), or comparable position, and fill it with a person who would be very likely (but not guaranteed) to become the President-Elect in the following year.

We propose the leadership development track for the position of President be kept as a four year track. However, we suggest addition of the Executive VP position as a first position, followed by PE, President, and Past President. We propose this four-year presidential sequence replace the current one, and that those four people be on the Board, removing the Penultimate President.

It is likely that the Executive VP would need to also be added to the Executive Committee (EC), to maintain knowledge of operational matters. Also, committee assignments between presidential officers would need to be reexamined.

Reducing the tail commitment and redistributing to the onset of the presidential commitment will support the leadership pipeline model without discouraging potential presidents with a longer overall commitment period. Furthermore it will foster a forward-looking attitude. In terms of governance best practices, the past-president role typically is considered “a safety valve” and having a penultimate past president is excessive.

Member Perception

One important long-term issue is the recurring perception by members that the nominating process consists of an “old boys’ network” who nominate their friends to replace them without due regard to the characteristics of the candidate.

At the same time, the task force agrees that it is essential the Academy find the most qualified candidates for its leadership positions, and that some critical qualifications (related to leadership qualities) cannot reasonably be judged by members who haven’t worked with the candidates in a volunteer setting.

After all task force members familiarized themselves with the structure, process, and criteria used by the Nominating Committee, there was general agreement that the perceived problem is likely much bigger than the real problem. This implies that the lack of member understanding can be significantly helped by an appropriate, transparent formalization of the committee’s structure, process and criteria. That process needs to be objective, and have a broad and inclusive perspective.

The GTF recommends that the Academy adopt Bylaw changes to set the composition of the Nominating Committee. Further, we recommend that the Board annually, formally adopt the criteria to be used by the Nominating Committee in choosing nominees.

Communication With Members

By effectively communicating such criteria, the GTF believes that members’ concerns will be addressed, and they will feel more connected to the process while ensuring that members are equipped with the necessary information to nominate the most qualified members to fill open leadership positions. The board should determine the criteria used by the Nominating Committee.

Further, we believe the Academy has too long neglected having a proactive member communication process that regularly (1) seeks member input on candidates, and (2) explains the nomination and election process. The member input request should include information regarding volunteer service of members.

The GTF recommends adoption of an ongoing communication plan that includes:

- (1) A call for suggested candidates from the membership; and*
- (2) Explanation of the nomination and election process, including the process and criteria used by the Nominating Committee in selecting nominees.*

Composition of the Nominating Committee

The GTF discussed at length the question of, “who should populate the Nominating Committee?” We considered a wide range of possible appointees, and debated the pros and cons. We believe that the answer to this question relates directly to the chosen “fundamental nature of the Academy” question. We understand and agree with having the leadership of the sister organizations involved directly in choosing the Academy’s leaders, assuring that the leadership will be acceptable across the spectrum of our representation. At the same time, we believe it important to involve the Academy’s presidential officers, who we think will bring insight into the candidate’s capabilities and the operational aspects of leadership. We also think a regular director should be included, to represent members without a separate affiliation.

Ultimately, the GTF agreed with and recommends the following.

The GTF recommends the Board formally adopt a policy on composition of the nominating committee, to be consistent with the 2010 composition; namely:

- (1) Include the past president from each of the sister organizations;*
- (2) Include the Academy presidential officers (with possible revision of what this means);*
- (3) Include a Regular Director (as was begun this year);*
- (4) The Chairman will be the Penultimate President of the Academy (even if no longer on the Board, as recommended in this report.)*

Alternative Scenarios

If the Academy chooses to become either totally a membership only organization or totally an organization of organizations, then this would have obvious, parallel implications for the Nominating Committee.

In addition, another alternative discussed (and later discarded) would be for the four immediate past presidents be replaced with “elder statesmen”, to increase independence but maintain institutional knowledge.

Issues Related to the Election Process

This area of discussion took the greatest investment of discussion time by the GTF. Some GTF members had opinions on elections that they brought with them into the process. This was also the area with the greatest number of comments received from Academy members and from the Board, in advising our direction.

Contested Elections vs Elections by the Board

Some members felt (at least initially) that contested elections are the preferable method for electing our leaders, reflecting their personal value of putting democratic elections as a high priority.

Others felt that promoting contested elections would likely lead to popularity contests and electioneering, which they felt to be a bad result for the profession. This group, which was the strong majority of the GTF, felt that the nomination committee methodology, rather than contested popular elections, was preferable.

For this discussion, we also drew on the expertise of our consultant. He indicated to us that contested elections are not considered “best practices” in association governance today. This is because, whenever there is a popular election, one candidate will become “the winner”, and all the other candidates will become “losers”. The “losers” will be discouraged from continuing their prior level of participation. In addition, the election can be unnecessarily polarizing to the membership and the leadership. Popular elections typically result in the most popular candidates winning-- not necessarily the most qualified. The Academy is then deprived of the opportunity to nurture talent and prepare future leaders from among those losing an election.

After considerable discussion, the GTF has come to believe that the best approach for the Academy and its members is normally uncontested elections, with the addition of a leadership development program using articulated developmental criteria. The succession path to presidency should be extended at least one more year in advance.

The GTF recommends that the Academy develop a formal leadership development program, as an extension of the existing nomination process. Characteristics of this program would include:

- (1) Explicit articulation of the criteria and process used by the Nominating Committee in choosing board and officer candidates;*
- (2) Add an additional officer position, possibly an Executive Vice President, as an “heir apparent” who is expected, but not guaranteed, to become the President-elect the following year;*
- (3) Develop a comprehensive leadership development program for Academy volunteer leaders, and manage that talent pool proactively.*

Petition Process

An important issue is the delineation of “members’ rights” to participate in the nomination of board members. The GTF agreed that it is important to find a way for members to propose nominees.

At the same time, there was concern that members cannot (and should not be expected to) be aware of the personal leadership characteristics of potential nominees. The GTF believes it is important to include in the nomination process the insight of leaders who have observed and worked with candidates, evaluating their personal leadership characteristics.

There is a risk, both in perception and in reality, that such nominating process might become insular and fulfill the ‘good old boy’ myth. For this reason, the GTF unanimously agrees that it is important to provide the membership with an ability to contest a nominee with a petition-based competitor.

We recommend that the Academy develop and adopt a petition process to allow for contested elections for regular director positions, when a substantial number of members so desire. We recommend the Academy investigate and adopt an on-line voting methodology, for use in both contested and uncontested elections. Officer positions should be filled through the leadership development program and be elected by the Board.

The in-person/proxy voting process can lead to inefficient proxy battles, as we saw in 2009. Such battles create distrust between membership and leadership. We believe it is time for the Academy to pursue a different voting method.

One GTF member prefers all leadership candidates be fully member-nominated, and all positions fully contested. All other members of the GTF felt that a petition process should suffice to meet this objective.

Communication Issues

There appears to be perennial lack of understanding among Academy membership with respect to most areas surrounding elections. This includes the process itself, the standards and characteristics used, and the reasons for the processes.

The GTF recommends a communication program be implemented, to keep members educated on the processes of electing Board members and officers.

Further, this program should include education to all members (including directors) that, while there is considerable effort to produce a board with equal distribution by practice area and other characteristics, no board member represents any constituency and all board members are obligated and have a fiduciary responsibility to represent the Academy and act in its best interest.

The GTF believes that it should be emphasized to members that no board member represents any constituency and all board members are obligated and have a fiduciary responsibility to represent the Academy and act in its best interest.

Issues Related to Board Composition

According to our consultant, the Academy's Board of Directors is quite large in comparison to best practices. Current thinking suggests that boards have 17 - 19 members, with (in his opinion) 12 members being ideal.

He feels this size is necessary to allow all board members to participate fully in the discussions, while still keeping the Board's process moving forward.

In addition, he feels that there is a common misconception that board members represent particular constituencies. This is a misconception of both the membership and of board members. In truth, each board member has a legal obligation to represent the Academy as a whole and to act in its best interest-- despite any loyalties the Board member might have to a given constituency within the Academy.

The GTF discussed this issue at length. We evaluated whether the size of the current board has been a problem for board members, and concluded it had not.

Importantly, given the hybrid nature of the Academy, there are board members chosen to achieve a diversity and balance among subsets of the Academy's population. Reducing the number of board members would mean reducing or eliminating directors chosen from those populations. Some specific questions discussed were:

Should the Board include the current Special Director positions?

It is believed that the inclusion of the Presidents and Presidents-Elect of the sister organizations is very beneficial. This was a strongly held perception of some former Academy presidents, particularly those whose awareness included the original transition period to having Special Directors. After discussion, the GTF agrees, and recommends the special directors be kept on the Board.

Another aspect of this discussion includes the belief by the GTF that the sister organizations' ability to have Directors specifically from their constituency, and particularly their leaders, has led to those organizations' continued commitment to the ongoing work and process of Academy governance. In other words, without having presidential officers as special directors, we believe the current participative relationship with those organizations would deteriorate, perhaps even to the level of divisiveness that occurred before the Academy was formed.

We also discussed whether the number of special directors from each organization should (assuming there will be at least one from each organization) be left at two or should be changed to one, and, if so, which officer should fill that slot.

One important consideration in this discussion is the level of understanding of the President-Elect (PE) vs the President- of each organization to recent history and discussions on inter-organizational or profession-wide issues. The GTF concluded that it is critically important to have Special Directors who have access to such recent knowledge, which they get through the Council of U.S. Presidents (CUSP) and Academy Board meetings. For this reason, it is important that Presidents-elect be present for a year before being expected to have fully mature understanding of the inter-organizational agenda and discussions. Therefore, neither the PE nor the President should serve alone, as the Board would lose the important benefit of year-to-year continuity. The Board needs to have the PE present because he or she will be the President in the following year, and needs to understand the context of recent discussions.

Our conclusion is that the Academy would lose important current benefits if it reduced the number of special directors.

The GTF recommends maintaining the current Special Director membership on the Board, with each director having a vote.

Should the Board include the Vice Presidents?

It was proposed that the Academy might be better served by adopting an approach-- where VPs are not included on the Board, but are expected to attend board meetings. Under this proposal, VPs would not participate in Board discussions except when asked a question. The VP position would be seen as a stepping stone to a Regular Director position on the Board, rather than (as is currently the case) a promotion from such a position. The GTF discussed this at length.

On one hand, removing VPs would have some advantages, including (1) materially downsizing the Board size, and (2) differentiating further than currently between operational (EC) and policy (Board) matters.

On the other hand, there was a feeling from many on the GTF that it would be inappropriate to ask VPs to commit so much time and energy to the Academy without providing a voice on the Board representing their practice area. Also, it was felt that the proposed progression from VP/Executive Committee (EC) to the Board, rather than the other way around, presents difficulties in the desired progression of leadership development.

Eventually the majority felt that VPs should continue to be on the Board. We felt there was a danger of disenfranchisement and missed communications which might be harmful if VPs were not included. Recruitment of VPs might become more difficult, as well, if the prestige of the position were lowered, while keeping the same level of work and commitment.

The GTF recommends keeping Vice Presidents as voting board members.

Conclusion: Should the size of the Board be reduced, and, if so, how?

Our discussion of this issue began with a presumption that we needed to reduce the size of the Board in order to make it more effective. We discussed the various categories that might be changed.

We also discussed a potential transition to a “non-representative” form of the Board, where Board members are chosen without regard to their perceived or actual constituencies. This was the recommendation from our consultant, representing (in his opinion) best practice of association governance.

In the Actuarial profession’s current structure, the GTF concluded that having the Academy Board be representatively chosen has historically been, and is today, of enormous value to the profession. (Although all Board members, by law, represent all members of the Academy, we are distinguishing how those board members are chosen from how they operate once chosen.) Aside from the perception by other organizations of their inclusion and the value that they bring to the Board, having the current broad diversity of background and perception is also a strength of today’s board.

In discussing alternative approaches to board composition, we found that each of the changes we discussed would have wide implications on Academy structure, much of which would be negative.

When confronted with, in total, strong reasons for today's structure, we turned back to reexamine the original premise-- that the current board size is unwieldy and ineffective. What we found, by examining the comments of the Board, successive Strategic Planning Committees, and even public critics, was that the Academy Board, in the context of the other committees (especially EC and CUSP) seems to work quite well at its current size.

The GTF concludes that there are strong reasons for the Academy Board to be the size it is, and that the disadvantages of eliminating board positions greatly outweigh the advantages.

Related Mission Issues and Resulting Structure

As stated earlier, it is outside the scope of our discussion to evaluate changes in the fundamental nature of the Academy that aren't reflected in its mission statement or its strategic plan. It is worth special note that the issues related to board composition are very strongly tied to any such changes.

One pair of proposed fundamental changes that have been mentioned is to reconstitute the Academy as either: (1) an organization of organizations, or (2) a purely member-based organization. In those circumstances, the Board's composition would clearly have to be drastically changed.

Other Board Composition Issues

One question raised to the GTF was whether the Board should include non-actuary board members to add outside viewpoints and broaden the Board's overall perspective. The GTF's discussion was mixed regarding such a change. There are potential advantages to having such members. However, their presence must be weighed against the cost of adding one or more board members-- both in board size and in the financial cost of providing expense reimbursement. Ultimately, we did not come to a strong conclusion on this issue.

A question was raised as to whether we need specific rules included in the bylaws or policies as to board members returning to the Board for subsequent appointments. After discussion, we felt that the existing rules are sufficient.

Another issue, from the context of recent board membership changes, is that members appear to be confused about the process and the rules around resignations and removal of board members. We believe the Academy would benefit by having greater rigor in the rules surrounding such processes.

We recommend the Academy adopt changes in the bylaws to provide specific processes and rules around involuntary removal from the Board.

Academy Reimbursement of Board Expenses

A majority of GTF members have a concern that the current travel reimbursement policy dissuades some members from participating in Academy leadership, resulting in disproportionate participation of members from large firms, whose employers are likely to cover travel-related expenses. The Academy's leadership may lose perspectives from those employed by smaller firms, government entities, and academic institutions, as well as the perspectives of retired members.

However, non-reimbursement of travel related expenses may also serve to determine the most committed members as only the most committed members are willing to cover the costs.

The GTF does have a concern that such drastic change to the current reimbursement policy, such as full travel reimbursement, would be a significant budgetary burden.

The GTF believes that it is necessary to clarify the current travel reimbursement policy and appropriately inform members. The GTF also believes that a future member survey on volunteering should poll members to determine if participation is deterred by the travel reimbursement policy.

The current policy allows members who are employed by the government or an education institution to request travel reimbursement. Similarly a member whose attendance at a specific meeting is considered "critical" and is either retired or whose employer is unable to pay the expenses, is eligible to request a travel reimbursement.

To address budgetary concerns, some feel the Academy could again consider the possibility of technology-based distant Board meetings, such as conference calls and WebEx meetings

Issues Related to Board Committees

The President's Advisory Committee (PAC)

Most GTF members were unaware of the nature and function of the PAC, and some felt this was an issue. Appointments to the PAC are at the discretion of the President, and there was some feeling among some GTF members that this might lead to adverse member reaction.

Further, because the PAC is created and used by each President differently, there is a potential that Presidents who might benefit the most from an advisory board might be least disposed to actually listen to that advice. For this reason, the GTF suggests that the PAC structure and appointment process be more formalized.

The GTF recommends that the President's Advisory Committee should become a formal committee, through bylaw amendment. The President-Elect should be included on the committee every year. The Board should consider guidelines for additional members (such as, "two additional members from among the last five presidents.") Among possible additional duties, the responsibility for retention and accountability of the Executive Director should reside in the PAC, rather than just with the President.

The Society of Actuaries' model might be looked to as a starting point for this purpose.

Nominating Committee

The GTF discussed the composition of the Nominating Committee, including the change implemented this year by President Hohman.

A major conclusion by the GTF was that the Nominating Committee structure, Board member election process, and process for selecting nominees, are not always well defined.

The GTF discussed the practice of having Special Directors compose the Nominating Committee, and agrees with the process as a strong element of our inter-organizational glue.

We also discussed the pros and cons of having PEs, Presidents, and Past Presidents sitting on the Nominating Committee. Our conclusion was that the recent change to Past Presidents, rather than Presidents-elect, was a good one. There is a clear advantage to having those who've had two years of Academy experience involved in the process. This offsets the disadvantage that most of the committee members no longer are automatically attending Board meetings.

We discussed and agreed that the addition of an at-large Board member is a positive addition, as well.

The GTF recommends that the Nominating Committee be a Board committee. The Special Directors who were Presidents of their respective organizations should be recruited, as well as at least one at-large Board member. The four Academy Presidential officers should also be members. There should be guidelines adopted for deviations from this list.

The GTF discussed the practice of some board committees (such as the Public Interest Committee) appointing non-board members, or even non-Academy members. The GTF believes this practice has positive effects and should be continued.

One additional issue raised by a GTF member was that the Executive Committee has no members elected directly by the membership. All members are appointed by the Board.

Issues Related to the ASB and ABCD

The GTF's discussion on the subject of the ASB and ABCD was wide in scope. A significant part of the discussion involved an educational process, familiarizing the GTF members with the reporting structure and

process of ASB and ABCD governance. The discussion also included evaluation of the nomination process used.

The first conclusion of this discussion was that, if such explanations are necessary, perhaps the Academy is not doing the best job at communicating these matters to the general membership, contributing to the perceived lack of transparency.

The GTF recommends that the appointment and governance processes for the ASB and ABCD be included in a new transparency initiative.

In addition, the GTF discussed the practice of having CUSP appoint members of ASB and ABCD. Our conclusion was that this is an appropriate and valuable practice.

The GTF recommends development of a policy to have the Academy board appoint public advocates to monitor the ASB's and ABCD's activities and ensure that needs of the public are fulfilled. The GTF believes that the Board should direct the Public Interest Committee to develop a plan to monitor and evaluate the ASB's and ABCD's activities.

Whether to Constitute a Permanent Governance Committee

A question had been raised as to whether the GTF should become a permanent group, requiring it to become a committee. After discussion, the GTF agreed that the issues addressed will only arise from time to time, and can be best addressed by appointment of similar task forces as needed.

One ancillary result of this discussion was related to the Board's timeliness in identifying and responding to emerging governance issues.

The GTF recommends that the Board adopt a policy of periodic membership surveys to uncover any developing issues related to governance.

APPENDIX ONE

Initial List of Governance Issues

1. Task Force Operation

- a. Understand existing governance structure, function, process
 - i. Identify weaknesses (or strengths) and specific areas of concern.
 - ii. Consider various governance models and where Academy is or should be.
 - iii. Effectively, special directors are *ex officio* members of the Academy Board – does this structure best serve the Academy?
- b. Timeframe for action
 - i. One year
 - ii. Longer than one year
 - iii. Shorter than one year
- c. Timing of Recommendations
 - i. Made all in one report at end of Task Force life, or
 - ii. Phased, i.e. made when agreed to over term of TF?
- d. Support for Recommendations
 - i. Include discussion of rationale for recommendations.
 - ii. Include more than one alternative – listing pros & cons of each.

2. Election Issues

a. Nominations

- i. Nomination Committee structure/composition/role
 1. Independence from Board?
- ii. Members' role in nominating process
 1. Nominations from floor (part of current practice)
 2. Develop a more formalized process for accepting member nominations?
 3. Need for a petition process?
- iii. Process for vetting of potential candidates
 1. Eligibility and setting qualifications requirements
 2. Providing background information to members
 3. Campaign processes
- iv. Consider adding candidate qualification requirements
 1. Higher level than just MAAA requirement
 2. Consistency with bylaws
- v. Find way to involve younger members – that is, address “old boys” club effect.
- vi. Expand to include nominations for Chair (a VP and now member of Board) and Vice Chair (a VP elect?) of Practice Councils.

b. Election process

- i. Number of qualified candidates:
 1. Competitive election with more than one candidate for each open position, or
 2. Nominating Committee Slate as now, or
 3. Other?
- ii. Process
 1. Electronic voting (new), or
 2. Attendance at meeting (current)

- a. Facilitate proxy process to allow non-attendees to vote
- iii. Do Members, Board or Officers elect:
 - 1. President
 - 2. Officers (including Chair and Vice Chair of Practice Councils)
 - 3. Board members
- iv. Should Officers be elected by Board from among the Board (all of whom may be member elected)?
- v. Include elections for Practice Councils?
- vi. Consistency with bylaws

3. Board Composition

- a. Number of Board members
- b. Representation by practice area
- c. Special Director positions
 - i. In general, accept as eligible for the Academy Board a Board member of another actuarial organization?
 - ii. How to handle conflicts of interest of Academy vs. the actuarial organization they represent – are current procedures for managing conflicts of interest adequate?
 - iii. Appropriate organizations approved for this status?
- d. Allow non-actuaries (or non-Academy members) to serve on Academy Board?
 - i. The bylaws would seem to allow this now. It is clearly stated that officers must be members but Directors, apparently, need not be members of the Academy. Is that the intent?
- e. Board member responsibilities
 - i. Well documented?
- f. Other things reviewed on prior task force?
 - i. Term length?
 - ii. Meeting frequency?
 - iii. Leadership and succession planning?
 - iv. Checks and balances?
- g. Process for handling resignation and involuntary removal of Board members.

4. Board Committees (related to governance)

- a. Practice Councils
 - i. Number of Practice Councils
 - 1. Need one for Enterprise Risk Management (ERM)? International?
 - 2. Need financial reporting?
 - ii. Number of members on each Practice Council?
 - 1. Term of membership
 - 2. Representation by different constituencies
 - iii. Appropriate checks and balances?
 - 1. Correct understanding and implementation of Strategic Plan?
- b. Executive Committee
 - i. Acts between Board meetings top oversee Academy operations
 - ii. Redundancy with respect to President's Advisory Committee?
 - iii. No Executive Committee member elected directly by membership.
- c. President's Advisory Committee
 - i. "oversees Academy management"
 - ii. Advises Executive Committee
 - iii. Redundancy with respect to Executive Committee?

- d. Council of U. S. Presidents (CUSP)
 - i. Manages ASB & ABCD
 - ii. Forum for discussion of issues of importance to entire U.S. actuarial profession
 - iii. Dilution of Academy Board function?
- e. Litigation Review Committee
 - i. Provides broad based oversight with respect to amicus curiae briefs
 - ii. Relationship with other governance structures & functions
- f. Public Interest Committee
 - i. Functional in choosing/recommending advocacy positions
 - ii. Coordination with Practice Councils?
 - iii. Redundancy with Practice Councils?

5. Board transparency, democracy, and member communication.

- a. Bylaws interpretation
- b. Process for amending bylaws
 - i. Communicate changes made without a member vote and rationale for why only a Board vote to amend was required.
- c. Member buy-in and involvement
- d. Member directed organization
- e. Whether documents relevant to the Academy's governance, including Board agendas and minutes, should be made available to the public.

6. Academy reimbursement of Board related travel expense

- a. Not all employers cover this expense
- b. Would allow greater access to qualified candidates who might not choose to serve otherwise.

7. Public Advocacy Issues

- a.
 - i. Determining whether the Academy's public advocacy adequately represents members
 - ii. Determining whether members should be involved – and if so, to what degree – in the Academy's public advocacy given the existence of Academy Guidelines for Making Public Statements, Peer Review Guidelines, and the PIC's specific guidelines on making public statements.
- b. Should only majority view be expressed – or, should minority views also be disclosed?
 - i. Should we need to represent the views of our members?
 - ii. If so, how do we collect that information?
- c. What does "public" mean?
- d. Level of information in positions/practice notes/standards of practice
 - i. Minimum standards
 - ii. Good practice
 - iii. Advancing practice
 - iv. Best practice
 - v. Educating members in new areas

8. Governance Task Force

- a. Standing committee?
- b. Every X number of years?
- c. Formal document on "Governance" to make easier to review in future?

9. Role of the Academy within a multi-organization U.S. market.

10. Relationship of AAA with ABCD and ASB

- a. How ABCD and ASB are populated

11. Relationship with International Actuarial Organizations

- a. Recommendations from prior task force working?
- b. Need changes to process?