

SENATE No. 447

The Commonwealth of Massachusetts

PRESENTED BY:

Patricia D. Jehlen

To the Honorable Senate and House of Representatives of the Commonwealth of Massachusetts in General Court assembled:

The undersigned legislators and/or citizens respectfully petition for the passage of the accompanying bill:

An Act regulating executive compensation at mutual insurance companies.

PETITION OF:

NAME:	DISTRICT/ADDRESS:
<i>Patricia D. Jehlen</i>	<i>Second Middlesex</i>
<i>Sean Garballey</i>	<i>23rd Middlesex</i>
<i>Jason M. Lewis</i>	<i>31st Middlesex</i>
<i>Benjamin Swan</i>	<i>11th Hampden</i>
<i>Robert M. Koczera</i>	<i>11th Bristol</i>
<i>Denise Provost</i>	<i>27th Middlesex</i>
<i>Brian A. Joyce</i>	<i>Norfolk, Bristol and Plymouth</i>
<i>Mark C. Montigny</i>	<i>Second Bristol and Plymouth</i>

SENATE No. 447

By Ms. Jehlen, a petition (accompanied by bill, Senate, No. 447) of Patricia D. Jehlen, Sean Garballey, Jason M. Lewis, Benjamin Swan and other members of the General Court for legislation to regulate executive compensation at mutual insurance companies. Financial Services.

The Commonwealth of Massachusetts

In the Year Two Thousand Thirteen

An Act regulating executive compensation at mutual insurance companies.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

1 SECTION 1. Chapter 175 of the General Laws is hereby amended by inserting after
2 section 19W the following 3 sections:-

3 Section 19X: (a) A mutual company, as defined by section 19G, shall provide clear,
4 concise and understandable disclosure of all compensation awarded to, earned by or paid to the
5 named executive officers or directors designated in subsection (b). Mutual companies shall
6 conspicuously publish disclosure in a format readily accessible to members.

7 (b) For the purposes of this section and section 19Z, a “named executive officer or
8 director” shall mean (i) a person serving as a company’s principal or chief executive officer or
9 acting in a similar capacity during the last completed fiscal year regardless of compensation
10 level, (ii) a person serving as a company’s principal or chief financial officer or acting in a
11 similar capacity during the last completed fiscal year regardless of compensation level, (iii) a
12 company’s 3 most highly compensated executive officers other than the chief executive officer
13 and chief financial officer who were serving as executive officers at the end of the last completed
14 fiscal year, (iv) up to 2 additional persons for whom disclosure would have been provided under
15 clause (iii) but for the fact that the individual did not serve as an executive officer of the
16 company at the end of the last completed fiscal year; and (v) a company’s directors.

17 Section 19Y. (a)(1) A majority of directors at a mutual company, as defined by section
18 19G, shall be independent directors.

19 (2) No director shall qualify as independent unless the board of directors affirmatively
20 determines that the director has no direct material relationship with the mutual company and is
21 not a partner, shareholder or other officer of an organization that has a material relationship with
22 the company.

23 (b) (1) A mutual company, as defined by section 19G, shall have a compensation
24 committee composed entirely of independent directors.

25 (2) The compensation committee shall have a written charter stating the committee's
26 purpose and responsibilities, which, at a minimum, shall be to have the direct responsibility to:

27 (i) review and approve the mutual company's goals and objectives relevant to the
28 chief executive officer's compensation, evaluate the chief executive officer's performance in
29 light of those goals and objectives and, either as a committee or together with the other
30 independent directors, determine and approve the chief executive officer's compensation level
31 based on this evaluation; and (ii) make recommendations to the board with respect to non-chief
32 executive officer compensation and incentive compensation and equity based plans that are
33 subject to board approval.

34 (c) The commissioner of insurance shall promulgate regulations utilizing industry best
35 practices to define the term "independent" as used in subsections (a) and (b), provided however
36 that a director shall not be considered independent if the director: (i) is, or has been within the
37 last 3 years, an employee of the mutual company, or an immediate family member is, or has been
38 within the last 3 years, an executive officer, of the mutual company; (ii) has received, or has an
39 immediate family member who has received, during any 12-month period within the last 3 years,
40 more than \$120,000 in direct compensation from the mutual company, other than director and
41 committee fees and pension or other forms of deferred compensation for prior service, provided
42 such compensation is not contingent in any way on continued service; (iii) is a current employee,
43 or an immediate family member is a current executive officer, of a company that has made
44 payments to, or received payments from, the mutual company for property or services in an
45 amount which, in any of the last 3 fiscal years, exceeds the greater of \$1,000,000 or 2 per cent of
46 such other company's consolidated gross revenues; (iv) is or an immediate family member is, or
47 has been within the last 3 years, employed as an executive officer of another company for which
48 any of the mutual company's present executive officers at the same time serves or served on that
49 company's compensation committee; or (v) (A) is a current partner or employee of a firm that is
50 the company's internal or external auditor, (B) has an immediate family member who is a current
51 partner of such a firm, (C) has an immediate family member who is a current employee of such a
52 firm and personally works on the company's audit, or (D) was, or has an immediate family
53 member that was, within the last three years a partner or employee of such a firm and personally
54 worked on the company's audit within that time.

55 The commissioner shall update such regulations as necessary.

56 Section 19Z. The commissioner of insurance shall promulgate regulations requiring that
57 a mutual company, as defined by Section 19G, shall at least once every 2 years, include with a
58 proxy, consent, authorization, solicitation or notice of the annual meeting of a mutual company a
59 separate resolution subject to a non-binding vote to approve or disapprove the compensation of
60 the named executive officers or directors.

61 SECTION 2. Under section 19Y of chapter 175 a majority of directors at a mutual
62 company shall be independent directors no later than 4 years after the day this bill is signed by
63 the Governor.

64 SECTION 3. Under section 19Y of chapter 175, a mutual company shall have a
65 compensation committee composed entirely of independent directors no later than 4 years after
66 the day this bill is signed by the Governor.