Public Company Series

Board Structure and Composition

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32

Board refreshment strategies I: setting tenure limits and retirement ages

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In a rapidly evolving business landscape, public companies must prioritize dynamic governance to thrive and navigate new risks. Regular turnover helps ensure that the board has the right mix of capabilities, expertise, perspectives, and styles to effectively support the chief executive officer (CEO) and leadership team and advocate for shareholders.

Top-performing boards anticipate and proactively address planned and unplanned vacancies in the boardroom. They are strategic and deliberate about the process, with the goal of building a multi-year succession plan for the board's makeup. This allows them to bring exceptional talent in not only when they have a reactive refreshment but also in advance to take advantage of a wider time period for relationship development and recruitment.

Boards can apply a wide range of tools and mechanisms to facilitate turnover, such as tenure limits, age caps, voluntary retirement or resignation, requested retirement or resignation, and others. In this chapter, we will focus on two: tenure limits and retirement ages.

- **Tenure limit:** the maximum years of board service.
- **Retirement age:** a maximum age at which directors must step down from the board.

Both tenure limits and retirement ages are typically stipulated in corporate governance guidelines or the charter of the board committee responsible for board composition and director recruitment. While they can be useful tools and help boards evolve, they should *not* be the sole mechanisms for board refreshment.

Board refreshment trends

In our data, board turnover at US companies is consistently low—and may be too low for today's business environment. Consider the following:

Leaders are concerned about the pace of change

In Spencer Stuart's 2024 report, *Measure of Leadership: CEOs and Directors on Navigating Change*, three-fourths of CEOs and board directors report high levels of business uncertainty, and most see the risks accelerating. Approximately one-fourth worry that their organization is "sluggish" in responding to new challenges.

Boards believe in their CEO more than CEOs believe in their board

When it comes to dealing with a changing business environment, the *Measure of Leadership* research also found that 87% of board directors have faith in the readiness of their CEO to respond to these challenges. But the share of CEOs expressing high confidence in directors' ability to help guide them through the issues confronting their organizations is far lower—only 32%.

Board turnover is persistently low

Spencer Stuart's *2024 US Board Index* finds that board turnover has shown little variation over the past 25 years, with rates consistently around 7% or 8% a year. Only 58% of S&P 500 boards appointed a new director in the 2024 proxy year, translating to an overall turnover of less than one (0.83) new director per board.

Many boards say they have directors who should be replaced

In a 2024 Spencer Stuart survey of S&P 500 and S&P MidCap 400 nominating/governance committee chairs, more than one-fourth of respondents (26%) said they have one or more directors who they believe should be replaced. The top reasons for change: a director's skills or expertise is no longer current (62%) or no longer relevant to the board (23%), or the director is underperforming (21%).

Executives are even more likely to want some board directors replaced

A 2023 survey on board effectiveness by PwC and The Conference Board found that only 29% of executives rate their board's performance as excellent. Two-thirds point to long-tenured directors' reluctance to retire as the top reason for lack of board diversity, and 89% said that one or more directors on their board should be replaced.

Stakeholder expectations regarding board director tenure and retirement have evolved significantly

Over the past decade, investor expectations regarding director tenure and retirement have evolved significantly, emphasizing accountability, diversity, and adaptability in corporate governance.

- Institutional investors increasingly advocate for regular board refreshment as essential for fostering agility and innovation. Investors now prioritize director performance over mere tenure, expecting comprehensive evaluations to ensure each member contributes meaningfully to governance and strategy. Transparency and communication have become critical, with investors seeking greater insight into boards' composition strategies and the rationale behind tenure and retirement decisions. They also look for clear succession planning processes to ensure responsiveness to evolving challenges.

- CEOs and executive teams view board refreshment as crucial for maintaining the right mix of expertise to respond to rapid market changes.
- Governance experts like Institutional Shareholder Services (ISS) and Glass Lewis emphasize the importance of having formal policies, such as tenure limits and retirement ages, as well as robust evaluation processes to assess director performance on an ongoing basis. They advocate for a balanced approach that combines these policies with ongoing skills assessments to ensure that the board remains aligned with the organization's strategic goals.

These shifts underscore the importance of proactive turnover and the value of formal mechanisms as supplementary tools to help boards continually refresh with new directors, ensuring that governance aligns with a fast-changing business environment and effectively supports the leadership team and organization.

The benefits of tenure limits and retirement ages

Two mechanisms to facilitate turnover are tenure limits and retirement ages, which can set outer boundaries of board service and help refresh the board, providing several governance benefits.

- They give boards greater visibility about the outer limits for each director's service so boards can be proactive about succession planning.
- They reduce boardroom stagnation by providing mechanisms for rotating directors off the board and creating openings to add new directors with a diverse range of backgrounds and perspectives. This turnover can help ensure that the board has directors with the necessary skills and experience, particularly in rapidly evolving areas like digital technology, artificial intelligence, cybersecurity, regulatory/government, and global experience.
- They reinforce the message that board service is not a lifetime appointment.
- They can provide boards with a means for gracefully exiting ineffective or underperforming board members.

Challenges with tenure limits and mandatory retirement ages

At the same time, both measures have some potential drawbacks.

- Mandatory departures when a director reaches a tenure limit or retirement age can lead to the loss of seasoned board members who may be top contributors with deep institutional knowledge and valuable experience.
- That effect can be compounded if several valuable board members roll off at the same time, or if turnover happens during a period of crisis for the company.
- High board turnover may impact board culture, cohesion, and effectiveness, requiring more energy and deliberate effort to onboard a new group of incoming directors and build up the board's culture.
- Both mechanisms—tenure limits and mandatory retirement ages—can be crutches for boards to avoid more difficult conversations about a problematic, ineffective or less relevant board member. Rather than addressing these issues head on, some boards may opt to simply let a director stay on until forced off by a policy.

Tenure limits among US boards

Overall, the number of US boards adopting tenure limits, while slowly increasing, is low. Among companies on the S&P 500, the number has grown from 3% in 2014 to 9%—only 43 companies—in 2024. And most set high tenure limits: 72% of boards that restrict tenure set limits at 15 years or more. The average tenure for directors on S&P 500 boards is 7.8 years, one of the longest averages among the countries that Spencer Stuart tracks; directors leave S&P 500 boards with an average of 12.2 years of board service.

Hybrid tenure policies are emerging; for example, Microsoft's tenure policy targets an average tenure of 10 years or less for the board's independent directors and Best Buy's corporate governance policy states that non-executive directors should resign 5 years after they stop pursuing their primary career when they were first appointed to the board, effectively acting as a de facto tenure policy.

In countries where tenure limits for public company directors are more common (and often required by securities regulators), they tend to kick in earlier—often 9 to 12 years.

A survey of tenure limits and policies in other markets

Regulators in other countries have a range of policies regarding board tenure and independence.

Belgium: no limit.

Denmark: no limit, but directors lose independence after 12 years.

France: no limit, but directors lose independence after 12 years.

Germany: code recommends setting a maximum tenure, but in practice, no limit.

Hong Kong: no limit, but directors lose independence after 9 years.

Italy: no limit, but directors lose independence after 9 years.

Netherlands: officially 12 years, but in practice, 8 years is becoming the norm.

Norway: no limit.

Singapore: code encourages companies to limit tenure to 9 years, but directors can exceed this, subject to rigorous review.

Spain: no limit, but directors lose independence after 12 years.

Sweden: no limit.

Switzerland: no limit.

UK: directors lose independence after 9 years.

The current state of retirement ages among US boards

According to the "*US Spencer Stuart Board Index*," the number of S&P 500 boards disclosing a mandatory retirement age for directors has declined in the past decade, from 73% in 2014 to 67% in 2024. At the same time, the retirement age of boards with these policies continues to rise.

- The average retirement age is 74, unchanged for the past 4 years, but up from 73, 10 years ago.
- Among boards with age limits, nearly two-thirds (60%) have a mandatory age of 75 or older, compared with 30% in 2014 (*see diagram below*).

One reason for the reduction in mandatory retirement policies could be that boards are instead relying on other mechanisms to encourage turnover, such as director evaluations, skills assessments via board matrices, and voluntary retirements. Another reason could be that boards are eliminating the policies as directors approach the age cap.

Implementing tenure limits and retirement ages

Boards considering adopting tenure limits and/or retirement ages should keep several principles in mind—all commonly used by high-performing boards.

Determine the right benchmarks for your board

All organizations have their own unique needs and circumstances. The board—typically through the nominating/governance committee—should give careful thought to what the right metrics should be regarding tenure limits and/or retirement ages.

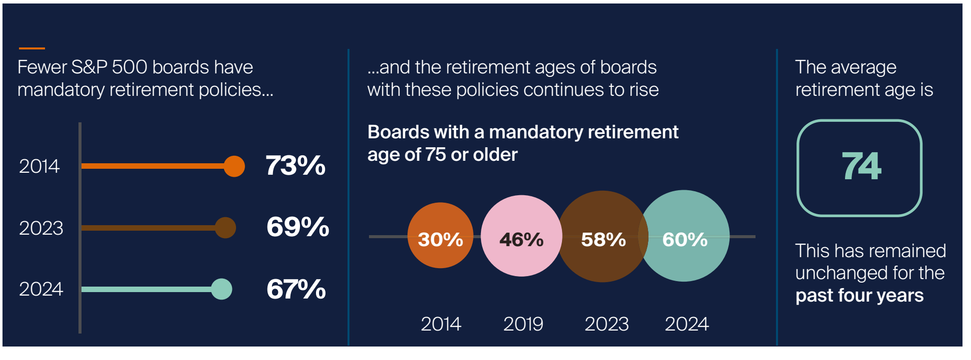
Boards should think creatively about tenure limits. Tenure policies relating to director independence could be considered. Another approach is to require directors to submit their resignation from the board once they have been retired from their primary corporate job for a certain period of time (such as the Best Buy example above).

Look ahead to proactively map turnover

When implementing tenure limits, boards should understand the impact of the new policies and plan accordingly to think ahead on boardroom succession planning.

Adopt a no-exceptions policy

Formal turnover policies should not be waived. Waivers can set expectations in the boardroom that the policy will routinely be waived for all directors, making it difficult going forward to roll off directors and



refresh the board. Investors may view a waiver of the retirement age as a signal that the board is reluctant to refresh or weak at its own succession planning.

Some investors have policies opposing waivers of retirement policies. For example, Glass Lewis's 2024 proxy voting guidelines state:

If a board adopts term/age limits, it should follow through and not waive such limits. In cases where the board waives its term/age limits for two or more consecutive years, Glass Lewis will generally recommend that shareholders vote against the nominating and/or governance committee chair, unless a compelling rationale is provided for why the board is proposing to waive this rule, such as consummation of a corporate transaction.

Engage relevant parties early and regularly

Involve current directors, executives, and major shareholders in discussions about the rationale for tenure limits and retirement ages. Solicit their input and feedback to address concerns and build consensus. Keep relevant parties informed about the implementation process, outcomes, and any adjustments to the policies over time.

Clearly communicate rationale and benefits

Communicate the reasoning behind these policies clearly and transparently. Emphasize the benefits, such as enhancing diversity, bringing in fresh perspectives, increasing accountability, and aligning governance with the evolving business environment.

Document policies

Develop clear, written policies regarding tenure limits and retirement ages. Include these in corporate governance guidelines and ensure that they are easily accessible to all relevant parties, including shareholders, regulators, auditors, etc. Having documented policies can prevent misunderstandings and set clear expectations.

Ensure that formal turnover policies are a supplement to ongoing board refreshment work

Most importantly, boards implementing tenure limits and/or mandatory retirement ages should not think that their work is done. They need to establish a culture and mindset of continuous improvement and refreshment. This entails cultivating a dynamic board culture in which all directors understand that their service is contingent on boardroom needs and is not a guaranteed position. Boards also need to proactively identify and address skills gaps among directors, conduct objective evaluations, and be willing to make difficult decisions such as asking underperforming directors to step down if necessary.

Conclusion

Effective board oversight requires continuously refreshing the board's composition. Tenure limits and mandatory retirement ages can be useful in ensuring board turnover and adding new voices and fresh perspectives, particularly as the pace of change in business continues to accelerate. Critically, these formal tools should be part of a broader set of practices that the board uses to foster turnover, including objective and robust director evaluations, skills matrices, and ongoing discussions with the executive team. We will discuss board evaluations in the next chapter.

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Believing in the potential of top talent to drive differentiated returns, Jason helps companies from startups to F100 enterprises recruit and advise CEOs and board directors. He is the head of Spencer Stuart's Global Board and CEO Practice and is a former Board Director of the firm.

Specializing in CEO searches, succession, and board development, he has led over 300 CEO and board transitions and has helped many founders with their succession and transition plans. Jason holds an M.B.A. from Stanford University and a B.A. in economics from Vassar College. Jason is frequently cited in top publications including Fortune, Financial Times, Bloomberg, and Harvard Business Review.

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