

ALLMERICA FINANCIAL CORP
Form DEF 14A
April 11, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials

.. Soliciting Material Pursuant to §240.14a-12

Allmerica Financial Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

(4) Date Filed:

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ALLMERICA FINANCIAL CORPORATION

**Notice of Annual Meeting
and Proxy Statement**

**Annual Meeting
of Shareholders**

to be held

May 17, 2005

Allmerica Financial Headquarters

440 Lincoln Street

Worcester, Massachusetts

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ALLMERICA FINANCIAL CORPORATION

440 Lincoln Street

Worcester, Massachusetts 01653

April 11, 2005

TO OUR SHAREHOLDERS:

You are cordially invited to attend the Annual Meeting of Shareholders of Allmerica Financial Corporation to be held on Tuesday, May 17, 2005, at 9:00 a.m. local time, at the Company's headquarters in Worcester, Massachusetts.

The accompanying Notice and Proxy Statement describe in detail the matters to be acted on at the meeting. Your vote is important. At your earliest convenience, please sign and return the enclosed proxy card in the envelope provided. Your cooperation will assure that your shares are voted and will also greatly assist us in preparing for the meeting.

Sincerely,

Frederick H. Eppinger

President and Chief Executive Officer

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ALLMERICA FINANCIAL CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 17, 2005

To the Shareholders of

Allmerica Financial Corporation:

The Annual Meeting of Shareholders of Allmerica Financial Corporation (AFC or the Company) will be held at AFC s headquarters, 440 Lincoln Street, Worcester, Massachusetts 01653 on Tuesday, May 17, 2005, at 9:00 a.m. local time, for the purpose of considering and voting on:

1. Election of three individuals to the Board of Directors;
2. Ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of AFC for 2005; and
3. Such other business as may properly come before the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed March 21, 2005 as the record date for determining the shareholders of AFC entitled to notice of and to vote at the Annual Meeting and any adjournment thereof.

The Company s 2004 Annual Report to Shareholders is enclosed with the mailing of this Notice of Annual Meeting of Shareholders, Proxy Statement and proxy card.

By Order of the Board of Directors

CHARLES F. CRONIN

Vice President and Secretary

Worcester, Massachusetts

April 11, 2005

Your vote is important. Whether or not you plan to attend the meeting, you are requested to sign, date and mail promptly the enclosed proxy. A return envelope, which requires no postage if mailed in the United States, is enclosed for that purpose. If you do attend the Annual Meeting and desire to withdraw your proxy and vote in person, you may do so.

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2005 ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

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ALLMERICA FINANCIAL CORPORATION

440 Lincoln Street

Worcester, Massachusetts 01653

PROXY STATEMENT

We are mailing this Proxy Statement, with the accompanying proxy card, to shareholders on or about April 11, 2005. We are providing this material in connection with the solicitation of proxies by the Board of Directors of Allmerica Financial Corporation ("AFC" or the "Company") for use at the Annual Meeting of Shareholders of AFC to be held on May 17, 2005 (the "Annual Meeting" or "Meeting").

QUESTIONS AND ANSWERS ABOUT PROXY MATERIALS AND THE ANNUAL MEETING

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon the following matters:

- n The election of three directors, and
- n The ratification of the Company's independent registered public accounting firm.

Any other business that properly comes before the Annual Meeting also will be considered. In addition, management will report on the performance of the Company and respond to questions from shareholders.

Who is entitled to vote at the Meeting?

Only shareholders of record at the close of business on March 21, 2005 (the "Record Date") are entitled to vote at the Meeting.

What are the voting rights of the holders of Allmerica Financial Corporation common stock?

Each share of AFC's common stock, par value \$0.01 per share (the "Common Stock") entitles its holder to one vote.

Who is soliciting my vote?

The Company's Board of Directors is soliciting your vote at the Annual Meeting. Proxies may be solicited on the Company's behalf by Directors, officers or employees in person or by telephone, electronic transmission and facsimile transmission. The Company will pay the cost of soliciting proxies, including reimbursing banks, brokerage firms and others for the reasonable expenses incurred by them for forwarding proxy material on behalf of the Company to you as a beneficial owner of AFC Common Stock.

How does the Board recommend I vote?

Our Board recommends that you vote your shares **FOR** each nominee to the Board, and **FOR** the ratification of the independent registered public accounting firm for the 2005 fiscal year.

How many shares are entitled to vote at the Meeting?

As of the Record Date, 53,446,694 shares of Common Stock were outstanding and entitled to be voted.

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How many votes must be present to hold the Meeting?

A quorum (a majority of issued and outstanding shares of Common Stock entitled to vote at the Annual Meeting) must be present either in person or by proxy. Votes withheld from a director nominee, abstentions and broker non-votes will be treated as present at the Annual Meeting for the purpose of determining a quorum, but will not be counted as votes cast. A broker non-vote occurs when a broker holding shares for a beneficial owner returns a proxy but does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

What vote is required to approve each item?

A plurality of the votes properly cast is required to elect the director nominees. This means that the director nominee with the most votes for a particular slot is elected for that slot. Only votes FOR or WITHHELD will affect the outcome. Abstentions are not counted for the election of directors. A majority of the votes properly cast is required to ratify the appointment of the Company's independent registered public accounting firm.

How do I vote?

You may either vote in person at the Annual Meeting or by proxy without attending the Meeting.

How do I vote by proxy?

If you are a registered shareholder (that is, if you hold Allmerica Financial Corporation stock certificates directly in your name), you may vote by mail. The shares of Common Stock represented by the enclosed proxy will be voted as directed by you, the shareholder, or, if the proxy card is signed and returned without instructions, in favor of the election of the director nominees designated herein, and in favor of the ratification of PricewaterhouseCoopers LLP as AFC's independent registered public accounting firm for 2005.

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with voting instructions. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote.

The enclosed proxy also confers discretionary authority with respect to any other proposals that may properly be brought before the Annual Meeting. As of the date of this notice, management is not aware of any other matters to be presented for action at the Annual Meeting. If any other matters properly come before the Annual Meeting, however, the proxies solicited hereby will be voted in accordance with the recommendation of the Board of Directors.

Can I change my vote after I return my proxy card?

Yes, any shareholder giving a proxy may revoke it at any time before it is exercised by delivering written notice thereof to the Company's Secretary, Allmerica Financial Corporation, 440 Lincoln Street, Worcester, MA 01653. Any shareholder of record attending the Annual Meeting may vote in person whether or not the shareholder has previously filed a proxy. Shares held beneficially in street name may be voted in person only if you obtain and bring to the meeting a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. Presence at the Annual Meeting by a shareholder who has signed a proxy, however, does not in itself revoke the proxy.

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How do participants in the Employees 401(k) Retirement Savings Plan or the Agents Retirement Plan vote their shares?

If you are a participant in The Allmerica Financial Retirement Savings Plan (formerly named The Allmerica Financial Employees 401(k) Matched Savings Plan) or The Allmerica Financial Agents Retirement Plan and you have shares of Common Stock allocated to your account, you may provide voting instructions to the trustees under the Plans by completing and returning the enclosed proxy card. The trustee will vote the shares allocated to your account in accordance with your duly executed instructions. If you do not send instructions, the trustee will not vote your shares. Your voting instructions will be kept confidential by the trustee.

Who can attend the Meeting?

The Meeting is open to all shareholders of the Company and to invited guests of the Board of Directors. Individuals who hold shares in street name may be required to provide a brokerage account statement or some other proof of their share ownership.

AFC's Annual Report to Shareholders for the fiscal year ended December 31, 2004, including financial statements for AFC and its subsidiaries and the report of PricewaterhouseCoopers LLP thereon, accompanies this Proxy Statement. The Annual Report to Shareholders is neither a part of this Proxy Statement nor incorporated herein by reference.

Table of Contents*Who are the largest owners of the Company's stock?*

The following table lists the persons who, to the best of the Company's knowledge, are beneficial owners (as defined in regulations of the Securities and Exchange Commission) of more than 5 percent of the outstanding shares of the Company's Common Stock as of March 1, 2005.

<u>Name and Address of Principal Shareholder</u>	Shares	
	<u>Beneficially</u> <u>Owned</u>	<u>Percent of</u> <u>Common Stock</u>
Hotchkis & Wiley Capital Management LLC 725 South Figuerora Street, 39th Floor Los Angeles, CA 90017	7,783,920(1)	14.6

- (1) Based on a Schedule 13G/A dated February 14, 2005 filed by Hotchkis & Wiley Capital Management LLC, which has sole dispositive power over 7,783,920 shares and sole voting power over 6,492,920 shares.

As of March 1, 2005, there were no persons other than Hotchkis & Wiley Capital Management LLC known to AFC to be the beneficial owner of more than 5% of the outstanding shares of Common Stock.

Table of Contents**How much stock do the Company's directors and executive officers own?**

The following table sets forth information regarding the number of shares of AFC's Common Stock beneficially owned as of March 1, 2005 by (i) each director (and director nominee) of AFC, (ii) the named executive officers in the Summary Compensation Table appearing later in this Proxy Statement and (iii) all executive officers and directors (and director nominees) of AFC as a group. This information has been furnished by the persons listed in the table.

Name of Beneficial Owner	Shares Beneficially	Restricted Stock
	Owned*	Units**
Michael P. Angelini	20,953(1)	
Frederick H. Eppinger	129,579(2)	6,481
Gail L. Harrison	4,168(3)	
J. Kendall Huber	96,941(4)	3,002
M Howard Jacobson	10,169	
John P. Kavanaugh	161,790(5)	711
Wendell J. Knox	4,204(6)	
Nancy L. Leaming		
Robert J. Murray	11,769	
Edward J. Parry, III	157,867(7)	1,503
Joseph W. Ramrath	3,500(8)	
John R. Towers	3,377(9)	
Herbert M. Varnum	13,500(10)	
Marita Zuraitis	25,000(11)	1,533
Directors (and director nominees) and executive officers as a group (16 persons)	746,212(12)	

* Each of the amounts represents less than 1% of the outstanding shares of Common Stock as of March 1, 2005, except that the shares reported for directors (and director nominees) and executive officers as a group represent 1.4% of such outstanding shares. As to shares listed in this column of the table, each person has sole voting and investment power, except as indicated in other footnotes to this table. Certain directors and executive officers have deferred receipt of certain stock grants, including grants of restricted stock. Deferred stock is held in a rabbi trust (the Rabbi Trust), the trustee of which is a subsidiary of State Street Corporation. As of March 1, 2005, the Rabbi Trust held 42,732 shares of AFC Common Stock pursuant to deferrals by directors and executive officers. These shares may be voted by the trustee of the Rabbi Trust. For information regarding specific deferrals, please refer to other columns in the table or the notes below. For executive officers, the amounts include shares underlying options exercisable within 60 days of March 1, 2005.

** Represents deferred and unvested restricted stock units granted to the named executive officers. Such units were granted on March 5, 2004 and February 25, 2005, respectively, pursuant to a program under which certain officers of the Company may defer and convert a portion of their annual incentive compensation into a number of restricted stock units determined based on the fair market value of the underlying shares of Company Common Stock at the time such compensation would otherwise have been paid. Additional grants were made at such times equal to 15% of the deferred and converted incentive compensation award amounts. All such restricted stock units convert into shares of AFC Common Stock upon vesting, which is three years after the date of grant, provided the officer remains continuously employed until such date.

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- Restricted stock units may not be disposed of by the holders and carry no voting rights. This table does not include performance-based restricted stock units (see Executive Compensation Summary Compensation Table, footnote (2)).
- (1) Excludes 5,888 shares held by the Rabbi Trust, the receipt of which Mr. Angelini has deferred.
 - (2) Includes 112,500 shares underlying options exercisable within 60 days.
 - (3) Excludes 6,869 shares held by the Rabbi Trust, the receipt of which Ms. Harrison has deferred.
 - (4) Mr. Huber shares voting and investment power with his wife with respect to 13,941 shares. Includes 83,000 shares underlying options exercisable within 60 days. Excludes 748 shares held by the Rabbi Trust.
 - (5) Includes 481 shares held for the benefit of Mr. Kavanaugh by the trustees of the Company's Retirement Savings Plan (the 401(k) Plan) and 127,750 shares underlying options exercisable within 60 days.
 - (6) Mr. Knox shares voting and investment power with his wife. Excludes 4,485 shares held by the Rabbi Trust, the receipt of which Mr. Knox has deferred.
 - (7) Includes 29 shares held for the benefit of Mr. Parry by the trustees of the 401(k) Plan and 133,500 shares underlying options exercisable within 60 days. Excludes 14,255 shares held by the Rabbi Trust.
 - (8) Mr. Ramrath shares voting and investment power with his wife.
 - (9) Mr. Towers shares voting and investment power with his wife. Excludes 4,035 shares held by the Rabbi Trust, the receipt of which Mr. Towers has deferred.
 - (10) Mr. Varnum shares voting and investment power with his wife.
 - (11) Includes 25,000 shares underlying options exercisable within 60 days. Excludes 6,452 shares held by the Rabbi Trust.
 - (12) Includes 981 shares held by the trustees of the 401(k) Plan, and 577,250 shares underlying options exercisable within 60 days; excludes 42,732 shares held by the Rabbi Trust. See notes 1 through 11 above.

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CORPORATE GOVERNANCE

The Board has adopted Corporate Governance Guidelines which can be found on the Company website at http://www.allmerica.com/home/corp_gov/index.html. For a printed copy of the Guidelines, shareholders should contact the Company's Secretary, Allmerica Financial Corporation, 440 Lincoln Street, Worcester, MA 01653.

There are three nominees for election to our Board this year. All of the nominees except Nancy L. Leaming have served as directors since the last annual meeting. Information regarding the business experience of each nominee is provided below. M Howard Jacobson is retiring from the Board and John R. Towers has decided not to seek re-nomination to the Board. Messrs. Jacobson's and Towers' terms expire at the conclusion of this year's Annual Meeting.

Who are the Nominees for Director?

Wendell J. Knox, 57, has been a director of AFC since 1999. Mr. Knox is President and Chief Executive Officer of Abt Associates, a policy research and business consulting firm, where he has been employed since 1969. Mr. Knox is also a director of Eastern Bank, a mutually owned commercial bank. The Board has determined that Mr. Knox is an independent director, based on the independence standards adopted by the Board and the requirements of the New York Stock Exchange (the "NYSE").

Mr. Knox is Chairman of the Nominating and Corporate Governance Committee and a member of the Audit Committee.

Robert J. Murray, 63, has been a director of AFC since 1996. He was Chairman of the Board of New England Business Service, Inc. ("NEBS"), a business-to-business direct marketing company, from 1995 until 2004 and served on the Board of Directors of NEBS from 1991 until 2004. He was Chief Executive Officer of NEBS from 1995 through 2003. Prior to joining NEBS, Mr. Murray was an executive officer with The Gillette Company, Inc., a consumer products company. Mr. Murray is also a director of Tupperware Corp., a publicly-traded consumer-direct seller of personal and household products, LoJack Corporation, a publicly-traded automobile security system manufacturer, Delhaize Group, a publicly-traded international food retailer based in Belgium, and IDEXX Laboratories, Inc., a publicly-traded developer, manufacturer, and distributor of products and services for veterinary, food and water testing markets. The Board has determined that Mr. Murray is an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Mr. Murray is Chairman of the Audit Committee.

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Nancy L. Leaming, 57, is a nominee for election as a director of AFC. Since 2003, Ms. Leaming has been President and Chief Executive Officer of Tufts Health Plan, a provider of healthcare insurance. From 1998 to 2003, Ms. Leaming served as Tufts Health Plan's President and Chief Operating Officer, the Chief Operating Officer from 1995 to 1998 and the Chief Operating Officer/Chief Financial Officer from 1986 to 1995. Prior to joining Tufts Health Plan, Ms. Leaming held a variety of management positions in managed care and banking, including Chief Financial Officer of Matthew Thornton Health Plan. Ms. Leaming currently serves as a director of Hologic, Inc., a publicly-traded developer, manufacturer and supplier of medical imaging systems. The Board has determined that, if elected, Ms. Leaming will be an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Who are the Directors Continuing in Office?

Michael P. Angelini, 62, has been a director of AFC since its formation in February 1995 and Chairman of the Board since November 2002, and was a director of First Allmerica Financial Life Insurance Company (FAFLIC), a subsidiary of AFC, from 1984 to 1996. Mr. Angelini is Chairman of the law firm of Bowditch & Dewey LLP, Worcester, Massachusetts, with which he has been associated since 1968, and is a director of Commerce Bank & Trust Company, a regional bank headquartered in Worcester, Massachusetts. Mr. Angelini is also a director of Blackstone Medical, Inc, a medical device manufacturer, Fiber Optic Network Solutions, Inc., a manufacturer of passive optical components and fiber optic cable packaging, distribution and connectivity solutions, and L. Hardy Company, Inc., a manufacturer of industrial cutting devices. The Board has determined that Mr. Angelini is an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Mr. Angelini's term of office as director of AFC expires in 2007.

Frederick H. Eppinger, 46, has been a director and the Chief Executive Officer and President of AFC since August 2003. Prior to joining the Company, Mr. Eppinger was Executive Vice President of Property and Casualty Field and Service Operations for The Hartford Financial Services Group, Inc. From 2000 to 2001, he was Senior Vice President of Strategic Marketing for ChannelPoint, Inc., which specialized in business-to-business technology for insurance and financial service companies. Prior to that, he was a partner in the financial institutions group at McKinsey & Company, an international management consulting firm, which he joined in 1985. Mr. Eppinger began his career as a certified public accountant with Coopers & Lybrand. Mr. Eppinger is an employee of the Company, and therefore is not an independent director.

Mr. Eppinger's term of office as director of AFC expires in 2006.

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Gail L. Harrison, 57, has been a director of AFC since 1995 and was a director of FAFLIC from 1986 to 1996. Since May 2000, Ms. Harrison has been a principal at Powell Tate, a public affairs and communications firm and division of Weber Shandwick Worldwide. From 1981 until joining Powell Tate, she was affiliated with The Wexler Group, a government relations consulting firm, where she was a Founding Principal. The Board has determined that Ms. Harrison is an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Ms. Harrison is a member of the Compensation Committee and the Nominating and Corporate Governance Committee. Her term of office as a director of AFC expires in 2006.

Edward J. Parry, III, 45, has been a director of AFC since December 2003. Mr. Parry is Executive Vice President and Chief Financial Officer of AFC. He has served as Chief Financial Officer of AFC since December 1996. Mr. Parry joined the Company in 1992. Prior to that Mr. Parry worked at the accounting firm then known as Price Waterhouse from 1987 until 1992. Mr. Parry is an employee of the Company, and therefore is not an independent director.

Mr. Parry's term of office as a director of AFC expires in 2007.

Joseph R. Ramrath, 48, has been a director of AFC since February 2004. Mr. Ramrath has been Managing Director of Colchester Partners LLC, an investment banking and strategic advisory firm, since 2002. Mr. Ramrath was Executive Vice President and Chief Legal Officer of the United Asset Management division of Old Mutual plc, an international financial services firm headquartered in London, England, from 2000 to 2002. Prior to that he was Senior Vice President, General Counsel and Secretary of United Asset Management Corporation from 1996 until its acquisition by Old Mutual in 2000. The Board has determined that Mr. Ramrath is an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Mr. Ramrath is a member of the Audit Committee. His term of office as a director of AFC expires in 2006.

Herbert M. Varnum, 67, has been a director of AFC since 1995 and was a director of FAFLIC from 1979 to 1996. Mr. Varnum was employed by Quabaug Corporation, a manufacturing company, beginning in 1960 and served as its President and Chief Executive Officer from 1982 to 1989, and as its Chairman and Chief Executive Officer from January 1990 until his retirement in June 1995. The Board has determined that Mr. Varnum is an independent director, based on the independence standards adopted by the Board and the requirements of the NYSE.

Mr. Varnum is a member of the Nominating and Corporate Governance Committee. His term of office as a director of AFC expires in 2007.

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How does the Board determine which directors are considered independent?

Under NYSE rules, a member of our Board of Directors only qualifies as independent if our Board of Directors affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). The Company's Corporate Governance Guidelines include standards to assist it in determining whether a director has a material relationship with the Company. The standards conform to the standards established by the NYSE.

Our Board of Directors has determined that every director and director nominee is independent under these standards with the exception of Messrs. Eppinger and Parry, who are senior executives of the Company.

There are no family relationships among any of the directors or executive officers of AFC and its subsidiaries.

Who is the director chosen to preside at executive sessions of the Board?

In accordance with the Company's Corporate Governance Guidelines, each year the Board elects from among its independent members either a non-executive Chairman of the Board or a lead director to serve as the Independent Presiding Director. The duties of the Independent Presiding Director are determined by the Board, and include presiding over executive sessions of non-management directors. Mr. Angelini, as the Chairman of the Board, is the Independent Presiding Director. The Board generally convenes in executive session in connection with regularly scheduled Board meetings (or at other times as deemed appropriate).

How often did the Board meet during fiscal 2004?

The Board of Directors held seven meetings. All of the incumbent directors attended at least 75% of the Board and committee meetings held while they were members during 2004.

What committees has the Board established?

The Board of Directors has standing Audit, Compensation and Nominating and Corporate Governance Committees. The current responsibilities of each of the committees are set forth in their charters, which are available on the Company's web site www.allmerica.com, under Corporate Governance. For a printed copy of any of the committee charters, shareholders should contact the Company's Secretary, Allmerica Financial Corporation, 440 Lincoln Street, Worcester, MA 01653. The Board of Directors dissolved its Investment Committee in 2004.

Audit Committee

Robert J. Murray (Chair)

Wendell J. Knox

M Howard Jacobson (1)

Joseph P. Ramrath

Compensation Committee

John R. Towers (Chair) (1)

Gail L. Harrison

M Howard Jacobson (1)

Nominating and Corporate Governance Committee

Wendell J. Knox (Chair)

Herbert M. Varnum

Gail L. Harrison

(1) Messrs. Jacobson's and Towers' terms expire as of the conclusion of the Annual Meeting, May 17, 2005.

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Audit Committee

The Board has made a determination that the members of the Audit Committee satisfy the requirements of the NYSE as to independence, financial literacy and experience and satisfy the independence requirements of the Sarbanes-Oxley Act of 2002. The Board has determined that Messrs. Murray and Ramrath are each Audit Committee financial experts, as defined by SEC regulations. The Audit Committee, among other matters, is responsible for the retention, oversight and, when deemed appropriate, termination of the Company's independent registered public accounting firm. The Audit Committee reviews the arrangements for and the results of the auditors' examination of the Company's books and records, auditors' compensation, internal accounting control procedures, and activities and recommendations of the Company's internal auditors. It also reviews the Company's accounting policies, control systems and compliance activities. The Audit Committee annually reviews and reassesses the adequacy of its charter. The Board of Directors approved a revised Audit Committee Charter in March 2005. The revised charter is attached to this Proxy Statement as Exhibit A. The committee held nine meetings during 2004.

Compensation Committee

The Compensation Committee has oversight responsibility with respect to compensation matters involving directors and executive officers of AFC; produces an annual report on executive compensation for inclusion in the Company's proxy statement; provides general oversight of the Company's compensation structure, including compensation plans and benefits programs; and retains and approves the terms of the engagement of any outside compensation consultants retained by the committee, among other responsibilities set forth in the committee's charter. The committee met seven times in 2004.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee advises and makes recommendations to the Board on all matters concerning directorship and corporate governance practices and the selection of candidates as nominees for election as directors. The committee recommended this year's candidates for reelection and recommends Board member committee assignments to the full Board of Directors. The committee met six times in 2004.

What is the process for consideration of Director Nominees?

The Nominating and Corporate Governance Committee may identify candidates for nomination to the Board through several resources, including recommendations of non-management directors, shareholders, the Chief Executive Officer, other executive officers, an outside search firm or other resources. Committee members may, as appropriate under the circumstances, review the backgrounds of candidates in light of the current needs of the Board, interview qualified candidates, conduct inquiries with references and review available information pertaining to the candidate's qualifications.

Director Qualifications

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The Nominating and Corporate Governance Committee believes that members of the Board and nominees for election to the Board should possess high personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders. To maintain a majority of independent directors on the Board, as required by the Corporate Governance Guidelines established by the Board, the

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committee has a strong preference that nominees meet the independence standards established by the Board. Board members and nominees should demonstrate initiative, be participatory and contribute a perspective based on practical experience and mature judgment. The Board seeks members who represent a broad array of experiences and expertise in the context of the evolving needs of the Board. When evaluating a candidate for Board membership, the Nominating and Corporate Governance Committee and the Board will consider these factors, as well as diversity, age and availability to serve. In addition, without the approval of the Nominating and Corporate Governance Committee, nominees who are Chief Executive Officers (or others with similar responsibilities) should serve on no more than two other public company boards, and other nominees should serve on no more than three other public company boards.

Shareholder Nominees

The Nominating and Corporate Governance Committee will consider qualified director candidates recommended in writing by shareholders. Shareholders who wish to suggest qualified candidates for consideration by the committee may do so by writing to the Secretary of the Company, Allmerica Financial Corporation, 440 Lincoln Street, Worcester, Massachusetts 01653, giving the candidate's name, biographical data, qualifications and confirmation that the candidate has agreed to serve if nominated and elected. All such submissions will be forwarded to the committee chairman. To allow the committee sufficient time to consider a candidate in advance of an annual meeting, shareholders should submit recommendations to the Secretary of the Company no later than December 31 of the year prior to the annual meeting. Shareholder-proposed candidates who meet the committee's minimum qualification standards, discussed in the preceding paragraph, will be evaluated in the same manner as other candidates considered by the committee for Board nomination.

Pursuant to the Company's by-laws, shareholders seeking to nominate a candidate for election to the Board of Directors without the approval of the Nominating and Corporate Governance Committee must deliver written notice of such nomination to the Company's Secretary not less than 60 days nor more than 90 days prior to the Annual Meeting. The notice must set forth the name, address and AFC stockholdings of the shareholder submitting the nomination, as well as information concerning the nominee that is required to be disclosed pursuant to the Securities Exchange Act of 1934, as amended, in a proxy statement soliciting proxies for the election of such nominee as a director, including a signed consent of the nominee to be named in a proxy statement and to serve as a director, if elected. In addition, the notice must be accompanied by a petition signed by at least 100 record holders of AFC Common Stock representing in the aggregate at least one percent of the outstanding shares entitled to vote on the election of directors.

How can shareholders communicate with the Board?

Shareholders can communicate with the Board of Directors, including the non-management directors and the Independent Presiding Director (the Chairman of the Board), either by writing to the Allmerica Board of Directors, Attn: Corporate Secretary, 440 Lincoln Street, Worcester, Massachusetts, 01653, or by calling 1-866-656-4232. An independent third-party service answers all calls to this toll-free telephone number, and passes the caller's information on to our General Counsel and our Director of Internal Audit, who in turn transmit the information to the appropriate member of the Board. Communications may be anonymous or confidential. Complaints relating to Allmerica's accounting, internal accounting controls or auditing matters will be referred to the Chairman of the Audit Committee. Other concerns will be referred to the Chairman of the Board. All shareholder-related complaints and concerns will be received, processed and acknowledged by the Allmerica Board. Further information regarding communications with the Board of Directors may be found at the Company's web site, www.allmerica.com under Corporate Governance Contact Allmerica Board .

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Are directors expected to attend annual meetings?

All directors are expected to attend the Company's annual shareholders' meetings. All directors were present at last year's annual meeting.

How are the directors compensated?

For the period from the 2004 Annual Meeting of Shareholders to this year's Annual Meeting, non-employee directors received an annual retainer consisting of 1,500 shares of AFC Common Stock issued pursuant to the Amended and Restated Non-Employee Director Stock Ownership Plan and a cash payment of \$20,245. The Compensation Committee intended the value of the shares granted to each non-employee director (established as of the close of business on May 5, 2004) and the cash payment to equate to an annual retainer of \$73,000. The Board of Directors voted on March 15, 2005 to maintain the annual retainer at \$73,000 for the period beginning immediately after the Annual Meeting and until the 2006 Annual Meeting, but to pay such retainer 50% in shares of Common Stock based on the stock price on the date of grant (or as close as practicable to 50% without the issuance of fractional shares) and the balance to be paid in cash. Directors who are employees of the Company receive no additional compensation for their services as members of the Board.

In addition to the annual retainer, Mr. Angelini received a fee of \$60,000 as Chairman of the Board, chairpersons of committees received a \$5,000 annual retainer, and non-employee directors of AFC received \$1,500 for each meeting of the Board of Directors that they attended. Committee members received \$1,000 for each meeting of their committee that they attended. For the upcoming period until the 2006 Annual Meeting, the retainer for chairing the Audit Committee was increased to \$10,000 and the retainer for chairing each of the Compensation Committee and the Nominating and Corporate Governance Committee was increased to \$7,500. In addition, Board meeting fees were increased to \$2,200 and committee meeting fees were increased to \$1,500.

Directors who are unable to attend, in person, meetings of the Board or any committee of which they are members, but who fully participate in any substantive meeting telephonically, or directors who participate in substantive telephone meetings, are paid a fee equal to one-half the regular Board or committee fee. All directors are reimbursed for reasonable travel and other expenses of attending meetings of the Board of Directors and its committees. Directors are eligible to purchase certain of the Company's insurance products at rates or with features available to the Company's employees generally. The Company provides Mr. Angelini with appropriate office space and secretarial assistance at the Company's headquarters.

Directors may defer receipt of their cash and stock compensation. Deferred cash amounts are accrued in a memorandum account that is credited with interest based on the so-called General Agreement on Tariffs and Trade (GATT) rate (5.12% in 2004; 4.89% in 2005). At the election of each director, cash deferrals of meeting fees and the retainer may be converted to AFC stock at the time of deferral, with such stock issued pursuant to the Amended and Restated Non-Employee Director Stock Ownership Plan.

Director Retirement Policy

It is the policy of the Board of Directors that a director retires at the Annual Meeting of Shareholders following his or her attainment of age 70. A director who is first elected to the Board after the age of 65, however, may defer retirement until the Annual Meeting of Shareholders following his or her attainment of age 72.

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ITEM I

ELECTION OF DIRECTORS

The Board of Directors currently has