JOINT EXECUTIVE (EX) COMMITTEE/PLENARY

Draft: 12/28/09

Joint Executive (EX) Committee/Plenary
San Francisco, CA
December 7, 2009

The Joint Executive (EX) Committee/Plenary met in San Francisco, CA, Dec. 7, 2009. The following Members participated or were represented by proxy: Roger A. Sevigny, Chair (NH); Jane L. Cline, Vice Chair (WV); Susan E. Voss, Vice President (IA); Kevin M. McCarty, Secretary-Treasurer (FL); Sandy Praeger, Most Immediate Past President (KS); Linda S. Hall (AK); Jim L. Ridling represented by David Parsons (AL); Jay Bradford (AR); Fiaigoa A. Paogofie (AS); Christina Urias (AZ); Steve Poizner represented by Reid McClaran (CA); Marcy Morrison (CO); Thomas R. Sullivan (CT); Gennet Purcell (DC); Karen Weldin Stewart (DE); John Oxendine represented by Justin Durrance (GA); John Camacho (GU); J.P. Schmidt represented by Gordon Ito (HI); William W. Deal (ID); Michael T. McRaith (IL); Carol Cutter represented by Doug Webber (IN); Sharon P. Clark represented by David Hurt (KY); James J. Donelon (LA); Joseph G. Murphy (MA); Ralph S. Tyler, III (MD); Mila Kofman represented by Eric Cioppa (ME); Ken Ross (MI); Glenn Wilson represented by Manny Munson-Regala (MN); John Huff (MO); Michael Ada (MP); Mike Chaney represented by Mark Haire (MS); Monica Lindeen (MT); Wayne Goodwin (NC); Adam Hamm (ND); Ann Frohman represented by Bruce Ramge (NE); Neil N. Jasey represented by Douglas Wheeler (NJ); Morris J. Chavez (NM); Scott J. Kipper (NV); James J. Wrynn (NY); Mary Jo Hudson (OH); Kim Holland (OK); Teresa Miller (OR); Joel Ario (PA); Joseph Torti, III (RI); Scott H. Richardson (SC); Merle D. Scheiber (SD); Leslie A. Newman represented by John Morris (TN); Mike Geeslin represented by Stan Strickland (TX); Kent Michie (UT); Alfred W. Gross (VA); Gregory R. Francis represented by John McDonald (VI); Paulette Thabault (VT); Mike Kreidler (WA); Sean Dilweg (WI); and Ken Vines (WY). Also participating was: Joseph Fritsch (NY).

1. Adoption of the Report of the Executive (EX) Committee

Commissioner Sevigny reported the Executive (EX) Committee met Dec. 6. The Committee adopted the report of the Dec. 5 joint meeting of the Executive (EX) Committee and Internal Administration (EX1) Subcommittee. The Committee adopted the minutes from its Nov. 17 and Oct. 20 conference calls, adopted the formation of a Title Insurance (C) Task Force and a Market Information Systems (D) Task Force, and adopted an additional charge for the Financial Condition (E) Committee to assist the Financial Crimes Enforcement Network, a division of the U.S. Department of the Treasury, with anti-money laundering examinations of insurance companies.

The Committee adopted a model law development request for a *Risk-Based Capital (RBC) for Fraternal Benefit Societies Model Act*. The Committee adopted its task force and working group reports: AIG Managing (EX) Task Force; Broker Compensation (EX) Task Force; Climate Change and Global Warming (EX) Task Force; Government Relations (EX) Leadership Council; International Insurance Relations (EX) Leadership Group; Long-Term Care (EX) Task Force; Military Sales (EX) Working Group; Producer Licensing (EX) Task Force; SVO Initiatives (EX) Working Group; Solvency Modernization Initiative (EX) Task Force; and Speed to Market (EX) Task Force.

The Committee received quarterly reports on model law development efforts for: (1) Amendments to *Insurance Holding Company System Regulatory Act* (#440); (2) Amendments to *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450); (3) Amendments to *Standard Nonforfeiture Law for Life Insurance* (#808); (4) Amendments to *Suitability in Annuity Transactions Model Act* (#275); (5) Amendments to *Annuity Disclosure Model Regulation* (#245); (6) Amendments to *Nondiscrimination in Health Insurance Coverage in the Group Market Model Regulation* (#107); (7) Amendments to *Small Employer Health Insurance Availability Model Act* (#118); (8) Amendments to *Individual Health Insurance Portability Model Act* (#37); and (9) Amendments to *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act* (#651).

The Committee received reports from the NIPR Board of Directors; the SERFF Board and the Interstate Insurance Product Regulation Commission. Commissioner Cline made a motion, seconded by Director Scheiber, to adopt the report of the Executive (EX) Committee. The motion passed.

2. Adoption of the Nov. 5 Conference Call Minutes

Commissioner Sevigny said the Joint Executive (EX) Committee/Plenary met by conference call Nov. 5 to consider adoption of the Financial Condition (E) Committee's proposal to use an alternative method for determining NAIC designations for residential mortgage-backed securities (RMBS) held by insurance companies (Attachments One and One-A). Commissioner Holland made a motion, seconded by Director Scheiber, to adopt the Nov. 5 conference call minutes. The motion passed.

3. Adoption by Consent of the Committee, Subcommittee and Task Force Minutes of the Fall National Meeting, Sept. 21–24, 2009

Commissioner McCarty made a motion, seconded by Commissioner Voss, to adopt the Committee, Subcommittee and Task Force minutes of the Fall National Meeting, except for items #7 and #13, which will be taken up separately by Joint Executive (EX) Committee/Plenary. The motion passed.

4. Adoption of 2010 Committee, Subcommittee and Task Force Charges

Commissioner Praeger made a motion, seconded by Commissioner Cline, to adopt the 2010 Committee, Subcommittee and Task Force Proposed Charges (Attachment Two). The motion passed.

5. Adoption of 2010 Proposed Budget

Commissioner Cline presented the 2010 Proposed NAIC Budget and said a public hearing was held Nov. 4, at which time the budget was adopted by the Internal Administration (EX1) Subcommittee. The proposed budget includes total revenues of $73.6 million and total expenses of $70.9 million, which represent a 0.7% increase and 0.8% decrease, respectively, from the 2009 budget, for $2.7 million in projected net revenue. Key drivers of the modest revenue increase are (1) growth in SBS transactions; (2) slightly higher volumes in SERFF; (3) a 1% growth assumption in 2009 industry premium volume, leading to a modest increase in database filing fees; and (4) a few proposed fee increases. The proposed business and fiscal impact statements are (1) developing a replacement system for managing the centralized Market Conduct Annual Statement (MCAS) data beginning in early 2011; (2) expanding existing information technology tools for managing the testing and development of NAIC applications and databases; and (3) developing a new NAIC education and training course on solvency modernization in 2010. Commissioner Cline made a motion, seconded by Commissioner McCarty, to adopt the 2010 Proposed NAIC Budget (Attachment Three). The motion passed.

6. Adoption of the Report of the Life Insurance and Annuities (A) Committee

Commissioner Sullivan reported the Life Insurance and Annuities (A) Committee met Dec. 6. The Committee received a legislative update on federal bills of interest. The Committee adopted the report of the Annuity Disclosure (A) Working Group, which included a request for a one-year extension for the Working Group to complete its work on revisions to the *Annuity Disclosure Model Regulation* (#245) and updates on work to the annuity illustration guidelines and buyer's guides. The Committee adopted the report of the Suitability of Annuity Sales (A) Working Group, which included minutes of its Dec. 1 and Nov. 24 conference calls to review and adopt proposed revisions to the *Suitability in Annuity Transactions Model Regulation* (#275). The Committee decided to request additional comments on the proposed revisions for purposes of considering adoption of the revisions. The Committee adopted the Life and Health Actuarial Task Force report, which included the revisions to *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) and updates on work to the Valuation Manual. The Committee decided not to adopt already-completed portions of the Valuation Manual until the August 2010 national meeting, to allow for completion of additional portions establishing the principle-based valuation approach for life insurance products and a uniform valuation basis for health insurance. Commissioner Sullivan made a motion, seconded by Commissioner Voss, to adopt the report of the Life Insurance and Annuities (A) Committee. The motion passed.

7. Adoption of Actuarial Guideline XXXIII—Determining CARVM Reserves for Annuity Contracts with Elective Benefits

Commissioner Sullivan presented for adoption the proposed revisions to Actuarial Guideline XXXIII, which provides guidance on which interest rates to use in the calculation of reserves on guaranteed lifetime income benefits for fixed deferred annuities. The Guideline was originally adopted in 1994 and modified in 1998. Commissioner Sullivan made a motion, seconded by Commissioner Voss, to adopt the Actuarial Guideline XXXIII—Determining CARVM Reserves for Annuity Contracts with Elective Benefits (Attachment Four). The motion passed.

8. Adoption of the Report of the Health Insurance and Managed Care (B) Committee

Commissioner Praeger reported the Health Insurance and Managed Care (B) Committee met Nov. 9 by conference call and (1) adopted the Appendix E revisions to the *Long-Term Care Insurance Model Regulation* (#641); (2) adopted the report of the Regulatory Framework (B) Task Force from its Oct. 13 conference call, during which the Task Force's charges were adopted; and (3) planned the Committee's public hearing on health care reform for the Winter National Meeting. The Committee held the public hearing on health care reform Dec. 4 and heard testimony from various stakeholders, including consumers, industry and providers on implementation issues state regulators should consider if federal health care reform is enacted. The Committee will meet Dec. 7 to receive a federal legislative update and consider adoption of reports from its task forces and the Accident and Health Working Group. Commissioner Praeger made a motion, seconded by Commissioner Thabault, to adopt the report of the Health Insurance and Managed Care (B) Committee. The motion passed.

9. Consider Adoption of Amendments to the *Long-Term Care Insurance Model Regulation* (#641)

Commissioner Praeger presented for adoption revisions to Appendix E of the *Long-Term Care Insurance Model Regulation*. The revisions were intended to address differing definitions used by companies in reporting claim denials and additional changes to make Appendix E more useful to regulators. Commissioner Praeger made a motion, seconded by Commissioner McCarty, to adopt the *Long-Term Care Insurance Model Regulation* (#641), as amended (Attachment Five). Roll call votes of the Executive (EX) Committee and Plenary were taken. There were no votes in opposition to the motion, and it passed by a two-thirds majority of both the Executive (EX) Committee and Plenary.

10. Adoption of the Report of the Property and Casualty Insurance (C) Committee

Director McRaith reported the Property and Casualty Insurance (C) Committee met Sept. 23. The Committee received presentations on (1) cost-saving auto safety devices; (2) an all-inclusive homeowners insurance policy from Nationwide Insurance; (3) a feasibility study on NAIC-developed national catastrophe models for hurricane and earthquake; (4) credit-based insurance scoring; and (5) problems related to defective Chinese drywall. The Committee adopted (1) a recommendation to change the Title Insurance Issues (C) Working Group to the Title Insurance Issues (C) Task Force; and (2) the revised *A Consumer's Guide to Homeowners Insurance*. The Committee also received reports from its three task forces and eight working groups.

The Committee will meet Dec. 7, during which the Committee will (1) consider adoption of its Nov. 16 meeting minutes and revisions to Chapter 25 of the *Market Regulation Handbook* related to multi-state examinations of advisory organizations and statistical agents; (2) discuss the formation of an insurance exchange by LexisNexis and the Council of Insurance Agents and Brokers; (3) discuss public policy related to certain regulatory exclusions in directors and officers policies; (4) discuss plans to address the use of credit-based insurance scores; (4) receive an update on the Catastrophe Insurance (C) Working Group's public hearing on Chinese drywall; (5) receive information about Takaful insurance; and (6) receive reports from its three task forces and eight working groups. Director McRaith made a motion, seconded by Director Scheiber, to adopt the report of the Property and Casualty Insurance (C) Committee. The motion passed.

11. Adoption of the Report of the Market Regulation and Consumer Affairs (D) Committee

Commissioner Holland reported the Market Regulation and Consumer Affairs (D) Committee met Sept. 24. The Committee received (1) an update on plans for MCAS, including the business and fiscal impact statement in the 2010 Proposed Budget to develop an automated collection system and to hire one additional staff person to assist in the collection and analysis of the data; (2) an update on the 2009 MCAS process; (3) a presentation on a survey of participating MCAS states, which indicated most states saw value in the majority of the ratios and were generally satisfied with the calculation method and level of detail in the analysis; (4) a presentation on the Committee's strategic planning session; (5) reports on public hearings regarding the with the use of "usual, customary and reasonable" rates in the reimbursement of medical expenses and the use of credit-based insurance scores; and (6) reports from its working groups and the Antifraud (D) Task Force.

The Committee will meet Dec. 8, during which the Committee will (1) consider adoption of technical revisions to examination standards of the *Market Regulation Handbook* and revisions to Chapter 25 of the *Market Regulation Handbook* related to multi-state examinations of advisory organizations and statistical agents; (2) discuss the Market Conduct Annual Statement, market regulation accreditation, the Market Actions (D) Working Group and multi-jurisdictional settlements, the complaint reconciliation process, and the Market Information Systems (D) Task Force; (3) receive reports from its five working groups and the Antifraud (D) Task Force. Commissioner Holland made a motion, seconded by Commissioner Dilweg, to adopt the report of the Market Regulation and Consumer Affairs (D) Committee. The motion passed.

12. Adoption of the Report of the Financial Condition (E) Committee

Commissioner Gross reported the Financial Condition (E) Committee met Sept. 24. The Committee received reports from its task forces and working groups. The Committee adopted changes to SSAP No. 10R, *Income Taxes–Revised, A Temporary Replacement of SSAP No. 10*, in concept, which were converted to draft language and adopted during the Committee's Nov. 24 conference call. The Committee approved the formation of a Separate Accounts Risk Charge (E) Working Group to study the need for new regulatory requirements for risk charges assumed by the general account in support of individual separate account products. The Committee also adopted its 2010 charges.

The Committee held four conference calls and conducted one e-mail vote since the Fall National Meeting, during which the Committee (1) worked on proposals related to SSAP No. 10; (2) adopted a new methodology for RBC on RMBS; (3) adopted a model law development request for a *Risk-Based Capital (RBC) for Fraternal Benefit Societies Model Act*; and (4) released a U.S. Solvency Framework document for comment.

The Committee will meet Dec. 8, during which the Committee will (1) consider adoption of a Guideline for Notice of Protection Provided by Life and Health Insurance Guaranty Association developed by the Receivership and Insolvency (E) Task Force; (2) discuss the U.S. Solvency Framework document prepared by the Committee; and (3) receive reports from its task forces and working groups. Commissioner McCarty made a motion, seconded by Director Hudson, to adopt the report of the Financial Condition (E) Committee. The motion passed.

13. Adoption of SSAP No. 10R, *Income Taxes–Revised, A Temporary Replacement of SSAP No. 10*

Commissioner Gross and Mr. Fritsch presented for adoption the proposed SSAP No. 10R, *Income Taxes–Revised, A Temporary Replacement of SSAP No. 10* regarding admission of deferred tax assets (DTAs). Commissioner Gross said the SSAP originated with a request from the American Council of Life Insurers (ACLI) to increase the limits on deferred taxes from one year to five years, and from 10% to 25%. In January 2009, the Executive (EX) Committee directed the Statutory Accounting Principles (E) Working Group to study a proposal calling for an increase from one year to three years and from 10% to 15%. During 2009, there was additional work to include further limits, characterized as “guardrails,” on the use of additional DTAs. Mr. Fritsch said the proposed SSAP No. 10R maintained DTA accounting requirements that are much more conservative than U.S. generally accepted accounting principles (GAAP) and would result in consistent accounting requirements, rather than a significant amount of state-specific permitted practices. Commissioner Dilweg made a motion, seconded by Commissioner Voss, to adopt SSAP No. 10R, *Income Taxes–Revised, A Temporary Replacement of SSAP No. 10* (Attachment Six).

Director Richardson expressed concern that the proposal was not universally supported and should be reserved for a larger discussion of statutory accounting principles vs. GAAP. Commissioner Tyler said the proposal represented a piecemeal approach to regulation based on institutionalizing exceptions, rather than consistently adhering to an accounting approach. Commissioner Voss said she supported taking action to provide a small window for relief and continuing to make improvements on a long-term scale. Director Hudson described Ohio’s experience with a permitted practice in this area in response to extraordinary economic circumstances. Significant discussion of the proposal followed. Director McRaith called the question.

On the Executive (EX) Committee, Connecticut, Florida, Iowa, Kansas, New Hampshire, New Mexico, Oklahoma, Pennsylvania, West Virginia and Wisconsin voted in support of the motion. Alaska, Louisiana, South Carolina, South Dakota, Utah and Vermont voted in opposition to the motion. The motion passed the Executive (EX) Committee. In a Plenary vote, Alabama, Arizona, California, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Northern Mariana Islands, Ohio, Oklahoma, Pennsylvania, Rhode Island, Texas, West Virginia, and Wisconsin voted in support of the motion. Alaska, American Samoa, Arkansas, Colorado, District of Columbia, Georgia, Guam, Kentucky, Louisiana, Maine, Maryland, Montana, Oregon, South Carolina, South Dakota, Tennessee, Utah, Vermont, Virgin Islands, Virginia, Washington and Wyoming voted in opposition to the motion. The motion passed.

14. Adoption of the Report of the Financial Regulation Standards and Accreditation (F) Committee

Superintendent Torti reported the Financial Regulation Standards and Accreditation (F) Committee met Dec. 5. The Committee released for comment proposed implementation guidance regarding company licensing and change in control that create new Part D accreditation standards. The guidance provides that if deficiencies in state compliance with the standards are observed, review teams will provide management comments similar to the current Part C standards. The Committee released for comment a referral from the Risk Retention Group (E) Task Force regarding the applicability of the Part B and Part C standards to risk retention groups licensed as captive insurers.

During regulator-to-regulator session, the Committee discussed state-specific accreditation issues and voted to award continued accreditation to Washington. Superintendent Torti made a motion, seconded by Director Scheiber, to adopt the report of the Financial Regulation Standards and Accreditation (F) Committee. The motion passed.

15. Adoption of the Report of the International Insurance Relations (G) Committee

Commissioner Praeger reported the International Insurance Relations (G) Committee met Dec. 6. The Committee received an update on the U.S. Financial Sector Assessment Program being undertaken this year, which includes an evaluation by the International Monetary Fund of the extent to which the U.S. insurance regulatory system is consistent with international standards embodied in the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS). The Committee discussed updates to the International Guiding Principles, received reports on (1) IAIS activities; (2) the International Regulatory Cooperation (G) Working Group's International Internship Program and proposed international training curriculum; (3) NAIC submissions to the U.S. Department of Transportation Proposed Rulemaking to the North American Free Trade Agreement; (4) the Solvency Modernization Initiative (EX) Task Force; and (5) the Joint Forum. Commissioner Praeger made a motion, seconded by Commissioner McCarty, to adopt the report of the International Insurance Relations (G) Committee. The motion passed.

16. Receive Reports on State Implementation Efforts of NAIC-Adopted Model Laws and Regulations

Commissioner Sevigny referred to the written reports for an update on the state implementation efforts of NAIC-adopted model laws and regulations. Tracking for models was reported as follows.

1. ***Use of Senior Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities Model Regulation*** **(#278)** was adopted at the 2008 Fall National Meeting. Twenty-one states have reported implementing the model by legislation or regulation.

2. Amendments to ***Viatical Settlements Model Act*** **(#697)** were adopted at the 2007 Summer National Meeting. Twenty-nine states have reported implementing related legislation, with a few bills still pending.

3. Amendments to ***Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities*** **(#815)** were adopted at the 2009 Fall National Meeting, and no implementation has been reported.

4. Amendments to ***Standard Valuation Law*** **(#820)** were adopted at the 2009 Fall National Meeting, and no implementation has been reported.

5. Amendments to ***Actuarial Opinion and Memorandum Regulation*** **(#822)** were adopted at the 2009 Fall National Meeting, and no implementation has been reported.

6. Amendments to ***Long-Term Care Insurance Model Act*** **(#640) and** ***Long-Term Care Insurance Model Regulation*** **(#641)** related to the external review process and prompt pay provisions were adopted at the 2009 Fall National Meeting. Implementation has not been tracked, pending consideration of revisions to Appendix E of the *Long-Term Care Insurance Model Regulation* during this meeting. NAIC staff will report on implementation efforts for both sets of revisions at the 2010 Spring National Meeting.

7. Amendments to ***Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act*** **(#651)** were adopted at the 2008 Fall National meeting. Forty-six states have reported implementing the amendments, with three additional states being waived from the federal requirements. The two remaining states are working rapidly toward final adoption.

8. ***Uniform Health Carrier External Review Model Act*** **(#76)** was adopted at the 2008 Summer National Meeting. One state has reported implementing the model, and 47 states have reported implementing some form of an external review law.

9. ***Medical Professional Liability Closed Claim Reporting Model Law*** **(#77)** was adopted at the 2008 Fall National Meeting. Two states have reported implementing the model, and 28 states have reported related activity.

10. Amendments to ***Derivative Instruments Model Regulation*** **(#282)** were adopted at the 2009 Summer National Meeting, and no implementation has been reported.

11. Amendments to ***Risk-Based Capital (RBC) for Health Organizations Model Act*** **(#315)** were adopted at the 2009 Fall National Meeting, and no implementation has been reported.

12. Amendments to *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition* (#385) were adopted at the 2008 Fall National Meeting. Four states have reported implementing the amendments, and 30 states have reported plans to implement the amendments before 2013.

13. Amendments to *Life and Health Insurance Guaranty Association Model Act* (#520) were adopted at the 2009 Spring National Meeting. Three states have reported implementing the amendments to some extent by legislation, with bills still pending in two states.

14. Amendments to *Property and Casualty Insurance Guaranty Association Model Act* (#540) were adopted at the 2009 Spring National Meeting, and no implementation has been reported.

Amendments to *Annual Financial Reporting Model Regulation* (#205), also referred to as the Model Audit Rule, are not being tracked because they pre-date the reporting process, but an update was provided. The amendments were adopted at the 2006 Summer National Meeting, with an effective date of Jan. 1, 2010, stated in the model and as a requirement for accreditation. Thirty-six states reported implementing the amendments. One state reported implementing portions of the amendments, to become effective by Jan. 1, 2010, and plans to implement the remaining amendments during 2010. One state reported the amendments will be implemented in early 2010 and requested all affected companies to comply beginning Jan. 1, 2010. All other states report planning to implement the amendments prior to Jan. 1, 2010.

17. Announcement of 2010 Zone Election Results

The zone officer election results are as follows: (1) Midwestern Zone: Director McRaith as Chair, Director Scheiber as Vice Chair, Director Hudson as Secretary; (2) Northeastern Zone: Commissioner Sullivan as Chair, Commissioner Ario as Vice Chair, Commissioner Thabault as Secretary; (3) Southeastern Zone: Director Richardson as Chair, Commissioner Newman as Vice Chair, Commissioner Donelon as Secretary; and (4) Western Zone: Director Hall as Chair, Superintendent Chavez as Vice Chair, Director Urias as Secretary.

Having no further business, the Joint Executive (EX) Committee/Plenary adjourned.

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Draft: 11/24/09

Joint Executive (EX) Committee/Plenary
Conference Call
November 5, 2009

The Joint Executive (EX) Committee/Plenary met via conference call Nov. 5, 2009. The following members participated: Roger A. Sevigny, Chair (NH); Jane L. Cline, Vice Chair, represented by Mike Riley (WV); Susan E. Voss, Vice President, represented by Jim Armstrong (IA); Kevin M. McCarty, Secretary-Treasurer, represented by Robert Ballard (FL); Sandy Praeger, Most Immediate Past President, represented by Ken Abitz (KS); Jim L. Ridling represented by Richard Ford (AL); Linda S. Hall represented by Gloria Glover (AK); Jay Bradford represented by Lenita Blasingame (AR); Christina Urias represented by Gerrie Marks (AZ); Steve Poizner represented by Woody Girion (CA); Marcy Morrison (CO); Thomas R. Sullivan represented by Mark Franklin (CT); Gennet Purcell (DC); Karen Weldin Stewart represented by Linda Sizemore (DE); John Oxendine represented by Justin Durrance (GA); William W. Deal (ID); Michael T. McRaith (IL); Carol Cutter represented by Connie Ridinger (IN); Sharon P. Clark (KY); James J. Donelon (LA); Ralph S. Tyler, III (MD); Mila Kofman represented by Robert Wake (ME); Ken Ross (MI); Glenn Wilson represented by Jaki Gardner (MN); John M. Huff (MO); Mike Chaney (MS); Monica J. Lindeen (MT); Wayne Goodwin (NC); Adam Hamm (ND); Ann Frohman (NE); Neil N. Jasey (NJ); Morris J. Chavez (NM); Scott J. Kipper (NV); James J. Wrynn represented by Michael Moriarty (NY); Mary Jo Hudson represented by Bill Rossbach (OH); Kim Holland (OK); Teresa Miller represented by Triz delaRosa (OR); Joel Ario represented by Dave DelBiondo (PA); Joseph Torti, III (RI); Scott H. Richardson (SC); Merle D. Scheiber (SD); Leslie A. Newman (TN); Mike Geeslin represented by Danny Saenz (TX); Kent Michie (UT); Alfred W. Gross represented by Doug Stolte (VA); Paulette Thabault (VT); Mike Kreidler represented by Jim Odiorne (WA); Sean Dilweg (WI); and Ken Vines (WY).

1. Consideration of Residential Mortgage-Backed Securities (RMBS) Proposal

Commissioner Sevigny reported that the purpose of this meeting was to consider adoption of a Financial Condition (E) Committee proposal to use an alternative method of determining NAIC designations for residential mortgage-backed securities (RMBS) held by insurance companies for investment purposes. The proposal recommends the NAIC model expected losses on non-agency RMBS (i.e., securities created by private entities and not by government-sponsored entities) and use the data to assign NAIC designations, which set the risk-based capital (RBC) charge for RMBS. This proposal was reviewed, discussed and adopted by both the Valuation of Securities (E) Task Force and Financial Condition (E) Committee (Attachment One-A).

Mr. Stolte gave the Financial Condition (E) Committee report. He provided an overview of regulators' past concerns with Nationally Recognized Statistical Rating Organizations (NRSROs), and the reliability of their ratings regarding RMBS. He shared that the Rating Agency (E) Working Group held a public hearing at the Fall National Meeting, where rating agency representatives stated that state insurance regulators should not rely solely on their ratings for regulatory purposes. Currently, state insurance regulators assign RMBS an RBC charge based on an NRSRO credit quality rating equivalent to the NAIC designation assigned by an NRSRO or the NAIC designation by the NAIC Securities Valuation Office (SVO). The E Committee proposal recommends including financial modeling of the expected loss of RMBS to establish the NAIC designation.

Mr. Moriarty discussed the specifics of the RMBS proposal, explaining that for year-end 2009 financial filings, the NAIC would hire a vendor to model expected losses on non-agency RMBS. He stated that this proposal would place non-agency RMBS under regulatory review consistent with the *Purposes and Procedures Manual of the NAIC Securities Valuation Office.* The outputs of the modeling would be mapped to current NAIC designations, which establish RBC charges. He stated that Re-REMICs, (Re-securitization of Real Estate Mortgage Investment Conduits) would be subject to the modeler's analysis in this proposal. The use of an outside vendor and an external consultant to assist with the project establishes a double layer of expertise to be used by the NAIC in identifying the RBC for these securities for 2009. Going forward, it is the intent of the NAIC, through its technical groups, to evaluate alternatives to using credit quality ratings of rating agencies to establish RBC charges for other types of investments.

Commissioner Dilweg reminded the members of the precedent for this recommended action. In 2008 the NAIC decoupled from the rating agencies on the rating of municipal bonds wrapped by bond insurers. RMBS is another asset class that has now come under review. E Committee believes this proposal would provide regulators with a more accurate evaluation of the worth of these investments. In 2010 the E Committee is committed to a close examination of the ratings of other asset classes.

Andrew J. Beal (NAIC) explained that while this project was not budgeted for 2009, the costs associated with this initiative will be assessed as user fees to insurance companies holding RMBS. This fee structure is similar to the SVO fee assessment currently in place between the NAIC and insurance companies.

Commissioner Dilweg made a motion, seconded by Commissioner Michie, for the Executive (EX) Committee to adopt the recommended proposal of the Financial Condition (E) Committee, whereby for year-end 2009 insurance company financial reporting, the NAIC would engage a third-party vendor to model expected losses of approximately 18,000 RMBS to establish an NAIC designation used to set an RBC charge. The motion passed.

Mr. Moriarty made a motion, seconded by Mr. Armstrong, for the Plenary to adopt the recommendation of the Financial Condition (E) Committee. The motion passed.

Having no further business, the Joint Executive (EX) Committee/Plenary adjourned.

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NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

To: NAIC Executive Committee/NAIC Members
From: Commissioner Al Gross (VA), Chair of the E Committee
Date: November 3, 2009
Re: Residential Mortgage Backed Securities (RMBS) Proposal

On October 14, 2009, the Valuation of Securities (E) Task Force held a joint conference call with the Financial Condition (E) Committee to consider the RMBS Proposal. This memo summarizes the issues underlying the proposal as well as the details of the proposal.

History of the RMBS Proposal

Presently residential mortgage-backed securities (RMBS) are treated in the same manner as corporate bonds when determining RBC requirements: the credit-quality designation provided by an Acceptable Rating Organization (ARO) or the NAIC's Securities Valuation Office (SVO) is used to establish the appropriate risk-based capital (RBC) charge. Securities with higher credit quality ratings receive lower RBC charges, and vice versa.

Two main issues have prompted the NAIC to consider a new approach for RMBS: (i) concerns with the ratings provided by AROs, and (ii) concerns the current process does not consider the severity or amount of loss that will be experienced by RMBS. Consequently, an alternative method of handling RMBS ratings has been the subject of discussion by the Valuation of Securities Task Force. Specifically, in trying to determine an alternative approach, members of the Valuation of Securities Task Force agreed consideration needs to be given to the amount of expected loss for a particular RMBS when establishing capital charges in RBC.

In addition to the work of the Valuation of Securities Task Force, the NAIC's Rating Agency Working Group held a public hearing at the NAIC 2009 Fall National Meeting during which rating agency representatives indicated state insurance regulators should not rely upon their ratings for regulatory purposes.

Regulators have therefore developed the RMBS Proposal to address the concerns with reliance upon rating agency ratings as well as to address the need to use expected loss amounts for RBC purposes.

The RMBS Proposal

The proposal would be applicable to year-end 2009 reporting and include utilization of a model to establish ranges of prices for each NAIC designation (1 through 6) for each of the approximately 18,000 RMBS. Assuming this proposal is adopted by the NAIC membership, the plan is for the NAIC to contract with an independent third party to assist with the modeling efforts.

An insurer's carrying value for a particular RMBS would be mapped to the price ranges to identify the appropriate NAIC designation for use in RBC.

Approximately 350 of the RMBS would not be subject to modeling. Of these, roughly 300 would be subject to utilization of the existing ARO ratings along with the carrying value to determine the NAIC designation, and the resulting RBC factor more accurately. The remaining approximately 50 RMBS with no ARO ratings would instead follow the existing 'Not Rated' or 'NR' process, requiring subsequent filing with the NAIC's Securities Valuation Office, or be subjected to the '5*/6* process' (referred to as 'five-star/six-star process,' a certification process set forth in the SVO's Purposes and Procedures Manual).

Finally, re-remics (Re-securitization of Real Estate Mortgage Investment Conduits) are to be subject to the modeler analysis.

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2010 PROPOSEDCHARGES

As of: 12/3/09

EXECUTIVE (EX) COMMITTEE

The mission of the Executive (EX) Committee is to manage the affairs of the NAIC in a manner consistent with the Articles of Incorporation and Bylaws.

Ongoing Support of NAIC Programs, Products, or Services:

1. Based on input of the membership, identify goals and priorities of the organization and make recommendations to achieve such goals and priorities. Make recommendations by 2010 Commissioners' Conference—*Essential*

2. Create/terminate task force(s) and/or executive working groups to address special issues and monitor the work of these groups. Create necessary task forces and/or executive working groups throughout 2010 as necessary—*Essential*

3. Submit reports and recommendations to NAIC members concerning the activities of its subcommittee and the standing committees. Submit report at each national meeting—*Essential*

4. Consider requests from NAIC members for friend-of-the-court briefs—*Essential*

5. Establish and allocate functions and responsibilities to be performed by each zone—*Essential*

6. Pursuant to the Bylaws, oversee the NAIC offices to assist the organization and the individual members in achieving the goals of the organization—*Essential*

7. Conduct strategic planning on an ongoing basis—*Essential*

8. Plan, implement and coordinate communications and activities with other state, federal, local, and international government organizations to advance the goals of the NAIC and promote understanding of state insurance regulation—*Essential*

9. Review all requests for development of model laws and give approval of those requests if it is determined the mandated criteria has been satisfied. Reporting at each national meeting is required on model laws approved for development—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty	**Susan E. Voss**	**Roger A. Sevigny**	**Jane L. Cline**
Florida	**Iowa**	**New Hampshire**	**West Virginia**

Staff Support: Therese M. Vaughan/Andrew J. Beal/Kay Noonan

BROKER COMPENSATION (EX) TASK FORCE

The mission of the Broker Compensation (EX) Task Force is to serve as the NAIC's focal point for issues involving producer compensation by monitoring developments in producer disclosure and related legal actions.

Ongoing Support of NAIC Programs, Products or Services:

1. Serve as a coordinating body for facilitating the resolution of relevant multi-state regulatory actions, including addressing the impact of any modifications made to similar settlement agreements by third parties.

2. Monitor developments in producer compensation disclosure and promote best practices in related disclosure for state insurance departments and regulated entities to consider implementing.

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Michael T. McRaith	**James J. Wrynn**	**Leslie A Newman**
Illinois	**New York**	**Tennessee**

Staff Support: Becky McElduff

CLIMATE CHANGE AND GLOBAL WARMING (EX) TASK FORCE

The mission of the Climate Change and Global Warming (EX) Task Force is to serve as coordinator of the NAIC analysis of the impact of climate change on insurance consumers, insurance providers and insurance regulators. The Task Force shall examine the implications of climate change on insurer solvency, the availability of affordable insurance coverage for the nation's insurance consumers and its impact on insurance regulation. The Task Force shall coordinate its efforts with other NAIC standing committees and task forces so that no duplication of effort occurs.

Ongoing Support of NAIC Programs, Products, or Services:

1. Address recommendations and conclusions cited in the 2008 Task Force white paper *The Potential Impact of Climate Change on Insurance Regulation.* Identify steps regulators need to take to assure that they are adequately monitoring insurers' activities with regard to managing the financial condition of insurers and the performance of insurance markets to the benefit of the nation's insurance consumers.

   This includes addressing implementation issues related to the Task Force's Insurance Company Climate Risk Disclosure Survey, which was adopted in March 2009. The goal is for the first survey data to be submitted to regulators in May 2010, for the 2009 reporting year. The Task Force will evaluate the need to develop a prototype that illustrates the policies and procedures on how regulators and the public would request access to the survey data once companies have filed their information. The Task Force will review voluntary prototype responses from insurers to facilitate its deliberations. The Task Force will continue to discuss preliminary plans to collect, compile and display the insurers' responses.

2. Work with industry and climate-change experts, insurers and consumer advocates to identify and discuss best practices related to climate change in the areas of consumer protection; increasing consumer confidence; solvency; identifying and addressing climate-related risks; and promoting a functioning, competitive insurance market in regard to climate-related risks. This includes the investigation of innovative "green" products.

Sponsors for 2009 Charges
(Except as noted, I support all charges)

Jim L. Ridling
Alabama

Joel Ario
Pennsylvania

Ramón Cruz-Colón
Puerto Rio

Mike Kreidler
Washington

Staff Support: Eric C. Nordman

GOVERNMENT RELATIONS LEADERSHIP COUNCIL

The mission of the Government Relations Leadership Council (GRLC) is to develop, coordinate, and implement the NAIC's legislative, regulatory, and grassroots initiatives. The Leadership Council will devise strategies for NAIC action and promote the participation of all NAIC members in the NAIC's government relations initiatives.

Ongoing Support of NAIC Programs, Products, or Services:

1. Monitor and analyze federal and state legislative/regulatory actions regarding financial services and other issues of importance to the NAIC membership—*Essential*

2. Work with other standing committees, task forces, and working groups to help develop and communicate NAIC's policy views to federal and state officials on pending legislation and regulatory issues by personal involvement of NAIC members through testimony, correspondence, and attendance at hearings—*Essential*

3. Develop a strategy and program for directly engaging NAIC members with Congress to advocate the benefits and efficiencies of state regulation—*Essential*

4. Oversee the development of the NAIC's grassroots program—*Essential*

5. Secure broader participation from NAIC membership on all government affairs advocacy initiatives—*Essential*

6. Report to the Executive Committee on all activities and matters relating to the annual charges of the Government Relations Leadership Council—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Susan E. Voss	**Kevin McCarty**	**Jane L. Cline**
Iowa	**Florida**	**West Virginia**

Staff Support: Ethan Sonnichsen

INTERNATIONAL INSURANCE RELATIONS (EX) LEADERSHIP GROUP

The mission of the International Insurance Relations (EX) Leadership Group (IIRLG) is to develop, coordinate, and implement the NAIC's international initiatives, and to coordinate between NAIC standing committees, including the International Insurance Relations (G) Committee and the Executive (EX) Committee. The Leadership Group will devise strategies for NAIC action and promote the participation of all NAIC members in the NAIC's international relations initiatives.

Ongoing Support of NAIC Programs, Products, or Services:

1. Monitor and analyze federal legislative/regulatory actions with international implications regarding financial services and other issues of importance to the NAIC membership—*Essential*

2. Work with other standing committees, task forces, and working groups, help develop and communicate NAIC's policy views to the IAIS, during regulator-to-regulator dialogues, and in other international organizations on pending standard-setting issues by personal involvement of NAIC members through leadership roles, presentations, correspondence, and attendance at meetings—*Essential*

3. Develop a strategy and program for directly engaging NAIC members with non-U.S. insurance supervisors and international organizations in coordination with other NAIC standing committees and groups, where appropriate—*Essential*

4. Promote the benefits of the U.S. insurance regulatory system and importance of being active internationally—*Essential*

5. Report to the Executive Committee on all activities and matters relating to the annual charges of the International Insurance Relations Leadership Group—*Essential*

6. Oversee the NAIC coordination of the review of the U.S. insurance sector in the Financial Sector Assessment Program (FSAP)—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty **Florida**	**Roger A. Sevigny** **New Hampshire**	**Jane L. Cline** **West Virginia**

Staff Support: George M. Brady

PRODUCER LICENSING (EX) TASK FORCE

The mission of the Producer Licensing (EX) Task Force is to: (1) develop and implement uniform standards, interpretations and treatment of producer and adjuster licensees and licensing terminology; (2) monitor and respond to developments related to licensing reciprocity; (3) coordinate with industry and consumer groups regarding priorities for licensing reforms; and (4) coordinate and consult with the National Insurance Producer Registry (NIPR) Board of Directors to develop and implement uniform producer licensing initiatives, with a primary emphasis on encouraging the use of electronic technology.

1. Monitor progress on recommendations to NIPR, which include the following: (1) work closely with the NAIC Market Regulation Division and the Producer Licensing Working Group to identify areas in the states' electronic business rules that do not appear to comply with reciprocity or uniformity standards; (2) develop a uniform set of electronic processing standards (business rules) to facilitate "true" uniformity vs. "virtual" uniformity; (3) create a central location for the submission of company contract information (i.e., appointments/contracts database); (4) coordinate and/or track multi-state insurance examinations; (5) create a central location for the submission of national criminal background-check status information; and (6) create a central location for the submission of continuing-education and pre-licensing course information—*Essential*

2. In conjunction with the Producer Licensing Coalition, work closely with the NIPR to encourage full utilization by all states and producers of NIPR products and services, including individual and business entity resident and nonresident licensing, address change requests, Attachments Warehouse and reporting of administrative actions—*Essential*

3. Finalize the evaluation of the key findings and issues regarding disparate business entity licensing laws, regulations and practices identified in the state producer licensing assessments by comparing the administrative burdens with the consumer protections arising from the licensing of business entities, and provide policymaking recommendations for simplifying and standardizing the business entity licensing process, considering all options ranging from elimination of the licensing of business entities to elimination of components of the process, such as licensing by line of authority or by each branch location—*Essential*

4. Finalize a strategy plan to implement fingerprinting in all states, the suggested deadline for implementation and identify what additional resources from state insurance regulators, the industry and consumer groups could be committed to this effort—*Essential*

5. Facilitate roundtable discussions at each national meeting with the state producer licensing directors for the exchange of views, opinions and ideas on producer-licensing activities in the states and at the NAIC—*Essential*

6. Appoint the **NARAB Working Group** to complete state reciprocity recertification based on the Working Group's 2009 reciprocity report and adopt a final report for recertification of the states' compliance with the reciprocity mandates of the Gramm-Leach-Bliley Act.

7. Appoint the **Producer Licensing Working Group** to:
    - Review the process for examination development and develop uniform standards for the delivery of examinations, updating of examinations and passage rate for examinations—*Essential*
    - Finalize the review of limited-line licensing issues, with particular focus on the following: (1) the establishment of a limited line that encompasses several insurance products where the business of insurance is ancillary to the business of the person offering the product; (2) the licensing requirements of individuals selling limited-line insurance products; and (3) the fingerprinting of individuals selling limited-line insurance products—*Essential*
    - Continue to provide oversight and ongoing updates, as needed, to the *State Licensing Handbook*—*Essential*
    - In response to inquiries about the states' adoption and interpretation of the Producer Licensing Model Act (#205) and uniform licensing standards (ULS), provide updates to the frequently asked questions document regarding the model act and guidance on practices to implement all of the ULS—*Important*
    - Provide ongoing maintenance and review of reciprocity guidelines and uniform application forms for continuing-education providers and state review and approval of courses—*Important*

PRODUCER LICENSING (EX) TASK FORCE *(Continued)*

- Provide input and feedback to NAIC/NIPR staff regarding the development of electronic-licensing applications, such as a centralized filing point for notification of administrative/criminal actions and Personalized Information Capture System (PICS) alerts for state insurance regulators—*Essential*
- Serve as an informal focus group with NAIC staff for the development and delivery of a *State Licensing Handbook* training class for state insurance departments—*Essential*

8. Receive updates from the NAIC/Industry Producer Licensing Coalition on its work to:
   - Continue to serve as the forum for the NAIC membership and industry to exchange views, opinions and ideas on producer-licensing priorities, such as professional standards of producers, state licensing laws, state administrative procedures and federal legislation—*Essential*
   - Continue discussions on ways to further improve processes the industry believes are administratively burdensome to producers, including the appointment process, the examination/testing process and ways to encourage state and local industry organizations to actively support full adoption of the major lines of authority and elimination of non-core limited lines of authority—*Essential*
   - Continue to track state legislative initiatives to implement uniform and reciprocal licensing standards and coordinate regulator and industry support for such initiatives—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Linda S. Hall **Alaska**	**William W. Deal** **Idaho**	**Sharon P. Clark** **Kentucky**
Roger A. Sevigny **New Hampshire**	**Kim Holland** **Oklahoma**	**Leslie A. Newman** **Tennessee**
Kent Michie **Utah**		

Staff Support: Timothy B. Mullen/Brady R. Kelley

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE

The mission of the Solvency Modernization Initiative (EX) Task Force is to coordinate all NAIC efforts to successfully accomplish the Solvency Modernization Initiative. The Task Force will utilize the technical expertise of other NAIC groups, particularly for the five focus areas of the Solvency Modernization Initiative:

- Capital Requirements, which will be coordinated with the Capital Adequacy (E) Task Force;
- International Accounting, which will be coordinated with the Statutory Accounting Principles (E) Working Group as well as the International Accounting Standards (EX) Working Group;
- Group Supervision, which will be addressed by the Group Solvency Issues (EX) Working Group;
- Valuation Issues in Insurance, which will be coordinated with the Principles-Based Reserving (EX) Working Group; and
- Reinsurance, which will be coordinated with the Reinsurance (E) Task Force.

Ongoing Support of NAIC Programs, Products, or Services:

1. Appoint and provide oversight to the **International Solvency Working Group** and its charges to do the following:
   - Assist the Task Force with all focus areas in the Solvency Modernization Initiative—*Essential*
   - Critically review and provide input and drafting to the International Association of Insurance Supervisors (IAIS) Solvency and Actuarial Issues Subcommittee, and on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system—*Essential*
   - Analyze other financial supervisory modernization initiatives, to the extent appropriate. Analysis should include—*Essential:*
     - The Basel II international capital framework for banks and implementation in the U.S.;
     - Solvency work by the International Association of Insurance Supervisors (IAIS);
     - Solvency proposals in place or under development in other jurisdictions, including Australia, Canada, Switzerland and the EU; and
     - Solvency improvements in place or under development in U.S.
   - Complete the analysis of the U.S. solvency system compared to the EU Solvency II proposed system upon final action by the EU, and identify areas for U.S. regulators to consider including in the current NAIC programs—*Essential*

2. Appoint and provide oversight to the **International Accounting Standards Working Group** and its charges to:
   - Assist the Task Force with the international accounting focus area in the Solvency Modernization Initiative—*Essential*
   - Critically review and provide input and drafting to the IAIS Insurance Contracts Subcommittee, and on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system—*Essential*
   - Analyze other financial supervisory modernization initiatives, to the extent appropriate. Analysis should include accounting standards being developed by the International Accounting Standards Board (IASB)—*Essential*
   - Monitor and provide comments directly to the IAIS on the developments of the IASB and on the IASB and Financial Accounting Standards Board (FASB) joint convergence projects related to insurance accounting issues. Coordinate with the Statutory Accounting Principles (E) Working Group to provide responses to the FASB on joint projects—*Essential*
   - Report findings relative to these developing issues to the Accounting Practices and Procedures (E) Task Force—*Essential*

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE *(Continued)*

3. Appoint and provide oversight to the **Group Solvency Issues Working Group** and its charges to:
   - Assist the Task Force with the group focus area in the Solvency Modernization Initiative—*Essential*
   - Study the need to modify the Holding Company Model Act by gathering input from all states regarding the use of the existing model and its effectiveness in addressing the issues that exist within insurer groups, particularly considering issues identified during this most recent economic downturn. At the conclusion of such study, provide a recommendation to the Financial Condition (E) Committee, including a request for model law development/change if the recommendation is for the NAIC to devote its resources to such an effort—*Essential*
   - Study the international solvency issues related to groups and the need to modify the Holding Company Model Act for any proposed changes in this area. This study should include consideration of the interaction between federal and state financial regulators and any changes that would be necessary to improve regulatory oversight provided by the Holding Company Model Act. At the conclusion of such study, provide a recommendation to the Financial Condition (E) Committee—*Essential*
   - Study the need to develop group-wide supervision, which may include group-wide capital requirements. The study should consider possible approaches to such capital requirements, including how capital for financial conglomerates and non-regulated entities is calculated—*Essential*
   - Recommend courses of action regarding supervisory colleges and/or other methods of communication and coordination among cross-border (including cross-state) and cross-sectoral supervisors—*Essential*
   - Critically review and provide input and drafting to the IAIS Insurance Groups and Cross-Sectoral Issues Subcommittee or on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system—*Essential*

4. Appoint and provide oversight to the **Principles-Based Reserving Working Group** and its charges to:
   - Serve as a coordinating body with all NAIC technical groups involved with projects related to a principle-based approach to regulation and assist the Task Force with the "insurance valuation" focus area in the Solvency Modernization Initiative—*Essential*
   - Consider policy and practice issues related to principle-based regulation for life insurance and thereafter property and casualty insurance, including but not limited to the impact on areas such as corporate governance, examination and analysis, as well as staff resources and other insurance department administrative concerns—*Essential*
   - Focus on balancing theoretical approaches with effective regulatory practices to achieve desired end-results in solvency monitoring efforts, and further coordinate with NAIC leadership to provide direction to NAIC technical groups, including whether and to what degree principle-based approaches should be pursued, setting timelines for such pursuit, and ensuring other issues are addressed prior to or concurrently with implementation of principle-based approaches by the technical groups—*Essential*
   - Report the status of its work to, and seek guidance from, the parent committee no less frequently than at each national meeting—*Essential*
   - Evaluate necessary changes to existing state insurance laws, regulations or administrative policies to effectuate a principle-based regulatory framework—*Essential*
   - Critically review and provide input and drafting on the IAIS papers, as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system—*Essential*

5. Monitor solvency-related work products of the IAIS. Assign papers to working groups to submit comments to the IAIS. Additionally, the Working Groups should review the papers and recommend whether and/or how the ideas in those papers should be implemented in the U.S. regulatory solvency system—*Essential*

SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE *(Continued)*

6. Communicate and coordinate with the International Insurance Relations (G) Committee and provide technical support to the Committee as needed—*Essential*

7. Report the status of its work to the Executive Committee no less frequently than at each national meeting—*Essential*

New Objectives and Goals ***(representing new NAIC programs, services or initiatives):***

8. Appoint the **Corporate Governance Working Group** to:
   - Outline high-level corporate governance principles. Determine the appropriate methodology to require compliance with such principles, giving due consideration to development of a model law—*Essential*
     - Analyze the requirements, regulatory initiatives and best practices of the states, other countries and regulators, and the insurance industry, to assist in principle development.
     - Develop additional regulatory guidance including detailed best practices for the corporate governance of insurers.
   - Review the current IAIS principles and standards related to corporate governance. Critically review and provide input and drafting to the IAIS Governance and Compliance Subcommittee, and on other IAIS papers as assigned by the parent Task Force. From this work, identify future initiatives to improve our regulatory solvency system—*Essential*
   - Consider the development of insurance regulatory education for members of insurers' Boards of Directors—*Essential*

Sponsors for Proposed 2010 Charges

(Except as noted, I support all charges)

Ann Frohman **Nebraska**	**Mary Jo Hudson** **Ohio**	**Alfred W. Gross** **Virginia**

Staff Support: Kris DeFrain/George Brady/Todd Sells

SPEED TO MARKET (EX) TASK FORCE

The mission of the Speed to Market (EX) Task Force is to serve as the NAIC focal point for modernization of the insurance product filing and review processes. The Task Force will monitor the development and implementation of speed to market operational efficiencies and will support the development of national standards in conjunction with the Interstate Insurance Product Regulation Commission (IIPRC). The Task Force will also support IIPRC initiatives that require uniformity and policy changes within the states.

Ongoing Support of NAIC Programs, Products, or Services:

1. Appoint a **National Standards Working Group** to coordinate with/work jointly with the IIPRC Interstate Compact National Standards Working Group in accelerating the drafting of national standards for insurance products that are eligible for inclusion in the IIPRC, with the emphasis on group life, individual annuity, group annuity, disability income and long-term care product standards. Report the results of this ongoing charge at each national meeting—*Essential*

2. Appoint an **Operational Efficiencies Working Group** to oversee the implementation and ongoing maintenance/enhancement of speed to market operational efficiencies that have been adopted. Report the results of this ongoing charge at each national meeting—*Essential*

   Update the speed to market assessment tool that includes a nationwide summary and individual state summaries of speed to market compliance; report at each national meeting.

   a. Monitor, assist with, and report on state implementation of the uniform Product Coding Matrices (PCM), Uniform Transmittal Document (UTD), Electronic Funds Transfer (EFT), standardized filing types and elimination of paper filing requirements when filing via SERFF. Achieve full implementation in all states by December 31, 2010—*Essential*
   b. Facilitate proposed changes to the PCM on an annual basis, including the review, approval, and notification of changes. Monitor, assist with, and report on state implementation of any PCM changes—*Essential*
   c. Facilitate proposed changes to the UTD on an annual basis, including the review, approval, and notification of changes. Collaborate with the SERFF Board to ensure incorporation of UTD changes in SERFF—*Essential*
   d. Monitor, assist with, and report on the full and complete implementation of SERFF in all states—*Essential*
   e. Use SERFF data to develop, refine, implement, collect and distribute common filing metrics that provide a tool to measure the success of the speed to market modernization efforts with emphasis on data that monitors both state regulatory and insurer responsibilities for speed to market for insurance products and ensure full and complete communication of any change in filing requirements—*Essential*
   f. In collaboration with the **National Treatment and Coordination (E) Working Group**, evaluate synergies between corporate changes/amendments and rate and form filing review and approval to improve efficiency—*Important*
   g. Serve as the clearing house for input from the SERFF Board regarding the SERFF electronic filing speed to market tool—*Essential*

3. Appoint a **Filing Efficiency Subgroup** of the Operational Efficiencies Working Group to provide oversight in evaluating filing efficiency issues for both regulators and industry—*Important*
   a. Continue work on the development of uniform rate and form terminology for dispositions, filing objections, filing statuses and deemer provisions designed to further advance speed to market for rate and form filing and review.

SPEED TO MARKET (EX) TASK FORCE *(Continued)*

   b. Survey the states and industry to gather information regarding common filing issues and develop recommendations for resolution.

4. Appoint a **Product Filing Review Handbook Subgroup** of the Operational Efficiencies Working Group to review and issue a 2010 update to the *Product Filing Review Handbook* that contains all of the operational efficiency tools and describes best practices for industry filers and state reviewers with regard to the rate and form filing and review process. Publish revised handbook by December 31, 2010—*Essential*

5. As desired by the IIPRC, encourage state participation in the IIPRC and receive reports, at each national meeting, of legislative activity for non-compacting states—*Essential*

6. As desired by the IIPRC, assist with marketing efforts promoting industry use of the IIPRC speed to market tool—*Essential*

7. As desired by the IIPRC, participate in dialogue with active supporters of the IIPRC—such as National Conference of State Legislators, National Conference of Insurance Legislators, state executive branch organizations, National Governors Association and National Association of Attorneys General—to provide background information and reasons in favor of all states joining the IIPRC—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Wayne Goodwin	**Mary Jo Hudson**	**Kim Holland**
North Carolina	**Ohio**	**Oklahoma**

Staff Support: Julienne L. Fritz/Joe Bieniek

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

The mission of the Internal Administration (EX1) Subcommittee is to monitor the operations of the NAIC, including preparing a budget for Executive (EX) Committee review, providing direction on personnel issues, approving emergency expenditures, evaluating the Chief Executive Officer and assisting the Chief Executive Officer in resolving competing demands for staff resources.

Ongoing Support of NAIC Programs, Products or Services:

1. The Subcommittee will review and approve all expenditures of funds not included in the final 2010 budget by considering any fiscal impact statements of unbudgeted resource requests and reporting its actions to the Executive Committee—*Essential*

2. The Subcommittee will annually work with the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer to review the business operations plan, which will incorporate the Executive Committee's strategic management initiatives, and will report its actions to the Executive Committee—*Essential*

3. The Subcommittee will oversee a review of any management areas of the NAIC that should be designated for formal operational reviews by working through the Chief Executive Officer—*Essential*

4. The Subcommittee will oversee the development, revision, and delivery of all NAIC education programs, or the addition of new programs, by coordinating with other committees as appropriate and providing direction to the Chief Executive Officer and Chief Operating Officer—*Essential*

5. The Subcommittee will receive a report at each national meeting from the NAIC Audit Committee, which will be chaired by the Secretary-Treasurer. The Audit Committee will meet with NAIC management at each national meeting, or more frequently as necessary, to review the NAIC financial statements and to hear reports from the NAIC management on emerging financial issues for the NAIC, and will report such information to the Subcommittee. The Audit Committee shall also carry out the following activities pursuant to its charter:
   - Engage the NAIC's independent accountants with respect to the annual audit. This will include the appointment of an independent audit firm, a review of the results of the annual audit, and discussions with the independent auditors and NAIC management to ensure that all audit comments or suggestions are addressed in a timely manner;
   - Serve as the primary liaison between the NAIC membership and the NAIC investment advisor, including the receipt of reports on the performance of the NAIC's investment portfolio and, from time to time, meet directly with investment firm representatives to hear periodic reports and recommendations—*Essential*

6. Select NAIC national meeting sites five to six years in advance of the meeting date to ensure efficient and economical locations and facilities—*Essential*

7. Review and revise, as necessary and appropriate, the procedures for selection of NAIC national and interim meeting sites—*Essential*

8. Review and revise, as necessary and appropriate, the criteria and categories for registrants at NAIC national meetings—*Essential*

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE *(Continued)*

9. Appoint the Information Systems Task Force to provide regulator-based technology expertise—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Roger A. Sevigny	**Jane L. Cline**	**Susan E. Voss**
New Hampshire	**West Virginia**	**Iowa**

Staff Support: Therese M. Vaughan/Andrew J. Beal/Brady R. Kelley

INFORMATION SYSTEMS (EX1) TASK FORCE

The mission of the Information Systems (EX1) Task Force is to provide regulator-based technology expertise to the Internal Administration (EX1) Subcommittee, and to support committee activities and objectives. This includes ensuring that the technology resources of the NAIC are deployed in such a manner to support the core values of service, results, value and communication by:

- Being an innovator that provides State Insurance Department staff with quality products, programs and services that focus on streamlining the regulatory process and decreasing the overall cost of regulatory compliance to regulators, the regulated, and consumers.
- Providing products and services to facilitate and promote the communication of regulatory information and knowledge among insurance entities, with a minimum technology investment needed to integrate into legacy systems. These products and services will be driven by the business needs of the states as expressed through the various committees of the NAIC, and will be prioritized by the Executive (EX) Committee.
- Embracing the technology direction established by the National Technical Architecture, and promulgated through the Task Force.

Ongoing Support of NAIC Programs, Products, or Services:

1. Serve as the Internal Administration (EX1) Subcommittee's project independent technology monitor and consultant. This involves monitoring the development, deployment, and operation of information technology by and for the NAIC, based on this effort providing reports and recommendations to the Subcommittee as appropriate. To achieve this, the Task Force will receive regular reports from the technology staff of each project—*Essential*

2. Maintain and monitor the use of National Technical Architecture standards for State-Based Insurance Regulation—*Essential*

3. Monitor the technical implementation of the *My*NAIC.org production releases and continue to work with the business committees that might be exploring a new role. Monitor the utilization of the roles and analyze associated issues. Coordinate with the respective business areas regarding oversight, education, and promotion of these roles. In addition, oversee improvements to the search function and presentation—*Essential*

4. Review, with technical recommendations for the Subcommittee, Business and Fiscal Impact Statements that involve technology being submitted to the Internal Administration (EX1) Subcommittee to ensure proposals meet the expectations for IT regulator review, to include placing special emphasis on promoting overall efficiencies of cost and operation and promoting interoperability among different systems; providing technology reports and recommendations as appropriate during NAIC Business and Fiscal Impact Statement approval process; and, if approved, thereafter monitoring implementation and ongoing effectiveness—*Essential*

5. Provide consultation to the NAIC technology staff, and provide interpretation of intent and specific technology approach, such as a proposal to drop support for a particular version of software. The Task Force will provide direction in such matters, either directly or through a working group—*Essential*

6. The Task Force will only serve as a regulator sponsor for projects involving technology that supports the business areas of more than one other standing committee—*Important*

INFORMATION SYSTEMS (EX1) TASK FORCE *(Continued)*

7. Maintain a methodology for cost justification and prioritization of NAIC information technology projects, subject to approval by the Internal Administration (EX1) Subcommittee—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Carol Cutter **Indiana**	**Sandy Praeger** **Kansas**	**Roger A. Sevigny** **New Hampshire**

Staff Support: Denise Matthews

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

The mission of the Life Insurance and Annuities (A) Committee is to consider issues relating to life insurance and annuities, review new life insurance products and establish priorities of the Life and Health Actuarial Task Force.

Ongoing Maintenance of NAIC Programs, Products or Services

1. Review model laws adopted in 2005 and not revised since that time—*Essential*

2. Oversee development of the principle-based reserving system—*Essential*

3. Review and revise, as necessary, the Buyer’s Guides to Fixed Deferred Annuities in conjunction with Appendix A of the Annuity Disclosure Model Regulation (#245) and the Life Insurance Buyer’s Guide in conjunction with Appendix A of the Life Insurance Disclosure Model Regulation (#580)—*Important*

4. Oversee changes and provide technical assistance as appropriate for the production of the *Market Share Reports for the Top 125 Life and Fraternal Insurance Groups and Companies by State—Essential*

5. Appoint the **Suitability of Annuity Sales Working Group** to review and consider changes to the Suitability in Annuity Transactions Model Regulation (#275) to improve the regulation of annuity sales and to provide insurers uniform guidance in developing agent training, supervision and monitoring standards in order to better protect annuity consumers from unsuitable sales and abusive sales and marketing practices—*Important*

6. Appoint the **Annuity Disclosure Working Group** to review and consider changes to the Annuity Disclosure Model Regulation (#245) to improve the disclosure of information provided for annuity products, both generally and specifically, and to provide insurers uniform guidance in developing disclosure information and documents and monitoring distribution thereof in order to better inform annuity consumers about the annuity product purchased and how it works—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Thomas R. Sullivan **Connecticut**	**Susan E. Voss** **Iowa**	**Ann Frohman** **Nebraska**
Adam Hamm **North Dakota**	**Sean Dilweg** **Wisconsin**	

Staff Support: Jolie H. Matthews/Jennifer R. Cook

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

The mission of the Health Insurance and Managed Care (B) Committee is to consider issues relating to all aspects of health insurance.

Ongoing Maintenance of NAIC Programs, Products and Services

1. Respond to inquiries from Congress, the White House and federal agencies; analyze policy implications and effect on states of proposed legislation; communicate NAIC's position through letters and testimony when requested—*Essential*

2. Develop appropriate regulatory standards and revisions to the NAIC models, consumer guides and training material, as necessary, Medicare supplement insurance, senior counseling programs and other insurance issues which affect older Americans. Report annually (Delegated to SITF)—*Essential*

3. Develop appropriate regulatory standards and revisions to the NAIC models, consumer guides and training material, as necessary, on long term care insurance. Work with federal agencies as appropriate. Report annually (Delegated to SITF)—*Essential*

4. Review and monitor state and federal relations with respect to senior health care initiatives, and other impacts on the states. Work with federal agencies as appropriate. Report annually (Delegated to SITF)—*Essential*

5. Coordinate and develop the provision of technical assistance to the states regarding state level implementation issues raised by federal health legislation; report at each national meeting. (Delegated to RFTF)—*Essential*

6. Monitor, report, and analyze developments related to ERISA, and make recommendations regarding NAIC strategy and policy with respect to those developments. Report at each national meeting (Delegated to RFTF)—*Essential*

7. Review model laws adopted in 2004 and recommend whether they be retained, revised or deleted. Report by 2010 Fall National Meeting—*Essential*

8. Review the NAIC's ERISA Handbook and modify as necessary to reflect developments related to ERISA. Report annually (Delegated to RFTF)—*Essential*

9. Oversee changes and provide technical assistance as appropriate to the production of the Accident and Health Statistical Compilation and Market Share Report. Periodically evaluate the demand, utility and income derived from these reports versus their cost—*Essential*

10. Review issues surrounding the uninsured/underinsured and strategies for achieving universal coverage; determine what contributions state insurance regulators, from their unique perspective, can make to the debate; and develop appropriate vehicles to convey any positions or principles the committee develops to a multiplicity of audiences. Report by 2010 Fall National Meeting—*Essential*

11. Review managed health care reforms, their delivery systems occurring in the marketplace, and other forms of health care delivery; recommend appropriate revisions to regulatory jurisdiction, authority and structures. Report annually (Delegated to RFTF)—*Important*

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE *(Continued)*

12. Serve as the official liaison between NAIC and the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), the National Committee on Quality Assurance (NCQA), and URAC (Utilization Review Accreditation Committee)—*Important*

13. Review issues surrounding internal appeals and external review with respect to regulatory modernization and determine whether national standards are appropriate. If so, recommend an appropriate vehicle to achieve goals. Report by 2010 Fall National Meeting (Delegated to RFTF)—*Important*

14. Review issues surrounding evidence-based medicine and determine whether rigorous and consistent reporting should be required. If so, develop a model law on the topic or recommend another appropriate vehicle to achieve goals. Report by 2010 Fall National Meeting.—*Important*

15. Continue to study and evaluate evolving long-term care insurance product design, rating, suitability and other related factors, and review the existing Long-Term Care Model Act and Regulation to determine their flexibility to remain compatible with the evolving delivery of long-term care services and remain compatible with the evolving long-term care insurance marketplace. Report at each national meeting (Delegated to SITF)—*Essential*

16. Monitor and provide assistance to the states on the implementation of the 2000 rating practices amendments to the Long-Term Care Insurance Model Regulation (#641). Report annually (Delegated to SITF)—*Important*

17. Examine issues and, as necessary, state laws and/or regulations regarding appropriate underwriting questions on applications for health insurance coverage, particularly with respect to ensuring that underwriting practices and HIV testing procedures are nondiscriminatory; and, if appropriate, develop a model law or model bulletin to reflect state law and/or regulations on the subject—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty
Florida

Sandy Praeger
Kansas

Joel Ario
Pennsylvania

Kent Michie
Utah

Staff Support: Jolie H. Matthews/Brian R. Webb/Jennifer R. Cook

REGULATORY FRAMEWORK (B) TASK FORCE

The mission of the Regulatory Framework (B) Task Force is to develop NAIC model acts and regulations for state health care initiatives, and with considering policy issues affecting state health insurance regulation.

Ongoing Maintenance of NAIC Programs, Products and Services

1. Review model laws adopted in 2005 and recommend whether they be retained, revised or deleted. Report by 2010 Fall National Meeting—*Essential*

2. Review and revise, as necessary, NAIC model laws and regulations identified as in need of review and revision as a result of the NAIC model law review initiative. Report annually—*Important*

3. Consider the revision of NAIC model laws and regulations affected by the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) and final federal regulations promulgated pursuant to HIPAA to comport with the requirements of HIPAA and final federal regulations. Report at each national meeting.—*Important*

4. Develop a Model Regulation to Implement the Small Employer and Individual Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out), once final federal regulations are issued. Report by 2010 Fall National Meeting—*Important*

5. Revise the Model Regulation to Implement the Small Employer Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out) (#119) and the Model Regulation to Implement the Individual Health Insurance Portability Model Act (#38) to comport with revisions to the model acts once final federal regulations are issued. Report by 2010 Fall National Meeting—*Important*

6. Consider the revision of NAIC model laws and regulations affected by the Genetic Information Nondiscrimination Act of 2008 (GINA) and any final federal regulations promulgated pursuant to GINA. Report by 2010 Fall National Meeting—*Important*

7. Study proposals for developing a process for the independent review of policy rescission decisions for individually underwritten health insurance and preexisting condition exclusion decisions. Consider the different approaches that could be used to establish this independent review process and identify and evaluate the issues associated with such a process. Report by 2010 Fall National Meeting—*Important*

New Objectives and Goals *(representing new NAIC programs, services, or initiatives)*:

1. Review issues concerning the standardization of forms practices and procedures in health insurance underwriting with respect to regulatory modernization that promotes administrative efficiency and the reduction of associated costs. Report by 2010 Fall National Meeting—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty **Florida**	**Scott J. Kipper** **Nevada**	**Joel Ario** **Pennsylvania**

Staff Support: Jolie H. Matthews/Jennifer R. Cook

SENIOR ISSUES (B) TASK FORCE

The mission of the Senior Issues (B) Task Force is to consider policy issues, develop appropriate regulatory standards and revise the NAIC models, consumer guides and training material, as necessary, on Medicare supplement insurance, senior counseling programs and other insurance issues which affect older Americans.

Ongoing Maintenance of NAIC Programs, Products and Services

1. Review model laws adopted in 2004 and recommend whether they be retained, revised or deleted. Report by 2010 Fall National Meeting—*Essential*

2. Continue to monitor and work with federal agencies to advance appropriate regulatory standards for Medicare Supplement and other forms of health insurance applicable to older Americans. Report at each national meeting—*Essential*

3. Review the Medicare Supplement Insurance Minimum Standards Model Act (#650) and Regulation (651) to determine if amendments are required based on changes to federal law and revise if necessary. Report by 2010 Fall National Meeting—*Essential*

4. Monitor the Medicare Advantage and Medicare Part D marketplace, assist the states as necessary with regulatory issues, and maintain a dialogue and coordinate with CMS on regulatory issues, including solvency oversight of waived plans and agent misconduct. Report at each national meeting—*Essential*

5. Monitor and assist states in the implementation of changes to the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651) to modernize the Medicare supplement market, as approved by the NAIC in March 2007 as required by the Medicare Improvement for Patients and Providers Act of 2008 and the Genetic Information Nondiscrimination Act of 2008. Report at each national meeting—*Essential*

6. Continue to monitor the changes in the Medicare Supplement insurance market and assist states with implementation of Medicare Supplement Model amendments due to federal statutory changes. Report at each national meeting—*Essential*

7. Provide the perspective of state insurance commissioners to the U.S. Congress, as appropriate, and the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services on insurance issues, including concerning the effect and result of federal activity on the senior citizen health insurance marketplace and regulatory scheme—*Essential*

8. Work with the Centers for Medicare and Medicaid Services to revise the annual joint publication, *Guide to Health Insurance for People with Medicare—Essential*

9. Monitor information on legislation impacting the funding of State Health Insurance Assistance Programs (SHIP). Report at each national meeting—*Important*

10. Assist the states and serve as clearinghouse for information on Medicare Advantage plan activity. Report at each national meeting—*Important*

11. In accordance with changes to the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651) approved by the NAIC in March 2007, monitor and maintain a record of state approvals of all Medicare supplement insurance new or innovative benefits for use by regulators and others—*Important*

SENIOR ISSUES (B) TASK FORCE *(Continued)*

12. In accordance with changes to the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651) approved by the NAIC in March 2007, periodically review state-approved new or innovative benefits and consider whether to recommend that they be made part of standard benefit plan designs in the model regulation—*Important*

13. Review preferred provider arrangements with Medicare supplement policies and determine their legality and their effect on Medicare supplement standardization. Take appropriate action, as necessary—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty	**Carol Cutter**	**Merle D. Scheiber**
Florida	**Indiana**	**South Dakota**

Staff Support: Jane Sung/Brian R. Webb

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

The mission of the Property and Casualty Insurance (C) Committee is to monitor and respond to problems associated with the products, delivery and cost in the property/casualty insurance market and the surplus lines market as they operate with respect to individual persons and businesses. The Committee also is to monitor and respond to problems associated with financial reporting matters for property/casualty insurers that are of interest to regulatory actuaries and analysts and to monitor and respond to problems associated with the financial aspects of the surplus lines market.

Ongoing Support of NAIC Programs, Products or Services:

1. Discuss issues arising and make recommendations with respect to advisory organization and insurer filings for personal and commercial lines, as needed. Report yearly—*Ongoing*

2. Appoint a **Catastrophe Insurance Working Group** to report progress at each national meeting on the following catastrophe insurance issues:
   - Monitor and recommend measures to improve the availability and affordability of insurance and reinsurance related to catastrophe perils for personal and commercial lines—*Ongoing*
   - Evaluate potential state, regional and national programs to increase capacity for insurance and reinsurance related to catastrophe perils—*Ongoing*
   - Monitor and assess proposals that address disaster insurance issues at the federal and state levels; assess concentration-of-risk issues and whether a regulatory solution is needed—*Ongoing*
   - Provide a forum for discussing issues and recommending solutions related to insuring for catastrophic risk, including terrorism, war and natural disasters—*Ongoing*
   - Update the *State Disaster Response Plan*, as needed, so that it provides a blueprint for action by the states to respond to catastrophic events—*Ongoing*
   - Investigate the regulatory, financial and economic impacts of defects reported in Chinese drywall imported between 2004 and 2007. Examine property damage and bodily injury claims related to exposure to defective Chinese drywall—*Ongoing*

3. Appoint a **Risk Retention Working Group** to:
   - Review developments in case law and rehabilitation proceedings and the findings contained in the U.S. Government Accountability Office's report on risk-retention groups; if warranted, make appropriate changes to the *Risk Retention and Purchasing Group Handbook;* report at each national meeting—*Ongoing*
   - Review the recommendations from the Risk Retention Group (E) Task Force related to corporate governance standards and advise whether to pursue a model law to implement the corporate governance standards; report at each national meeting—*Ongoing*

4. Appoint a **Crop Insurance Working Group** to:
   - Monitor the activities of the Federal Crop Insurance Corporation (FCIC) that affect state insurance regulators—*Ongoing*
   - Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state regulation—*Ongoing*
   - Review law changes and court decisions and, if warranted, make appropriate changes to the *Crop Insurance Handbook: A Guide for Insurance Regulators*—*Ongoing*
   - Monitor the regulatory information exchanges between the FCIC and state regulators, as well as the FCIC and the NAIC, and make recommendations for improvement or revisions, as needed. Report at each national meeting—*Ongoing*

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE *(Continued)*

- Facilitate regulators' concerns and assist the states, as necessary, in enacting regulatory changes to avoid the preemption given the inevitable preemption of crop insurance adjuster licensing by the U.S. Congress, through the federal Risk Management Agency (RMA), on a state-by-state basis, beginning as early as July 1, 2011—*Ongoing*

5. Coordinate with the Federal Insurance Administrator on the regulation of flood insurance to:
   - Continue developing a handbook or white paper to assist state insurance regulators in understanding the federal flood insurance program and how it interacts with state insurance regulation—*Important*
   - Complete work on a handbook or white paper by the 2010 Fall National Meeting. Report progress on the handbook or white paper, and any other activities; report at each national meeting—*Important*

6. Monitor the activities of the Workers' Compensation Task Force—*Essential*

7. Monitor the activities of the Casualty Actuarial and Statistical Task Force—*Essential*

8. Monitor the activities of the Surplus Lines Task Force—*Essential*

9. Appoint an **Advisory Organizations Examination Oversight Working Group** to:
   - Revise the protocols, as necessary, for the examination of national or multi-state rating organizations to be more comprehensive, efficient and possibly less frequent than the current system of single-state exams. Solicit input and collaboration from other interested and affected task forces and committees—*Essential*
   - Monitor data reporting of rating and/or advisory organization data-collection processes to determine if rating and/or advisory organizations implement appropriate measures to ensure data quality. Report the results of this ongoing charge as needed—*Essential*
   - Actively assist with and coordinate multi-state examinations of advisory organizations and statistical agents—*Essential*

10. Appoint a **Title Insurance Issues Working Group** to study issues related to title insurers and title insurance producers, including the impact of current real estate settlement practices on policyholders, recognizing that typically, settlement providers, not policyholders, are the title entity's customers. The Working Group should:
    - Complete a study on the ability to undertake a uniform data-collection system to capture title insurance premium and expense data that would allow for cross-jurisdiction premium comparisons. Report the results by the 2010 Spring National Meeting and make a recommendation to develop a nationwide title statistical plan—*Essential*
    - Study ways to improve consumers' ability to comparison shop for title insurance. Report the results by the 2010 Summer National Meeting—*Essential*
    - Consider issues raised by consumer representatives and the April 2007 GAO study—*Essential*
    - Consider ways to improve the solvency regulation of title insurers. Coordinate with the Financial Condition (E) Committee to determine the attributes of recent title company financial failures and to identify property/casualty solvency requirements (e.g., risk-based capital) and early warning tools (e.g., IRIS ratios) not currently applied to title insurers and consider whether they should be introduced. Report the results by the 2010 Fall National Meeting—*Essential*
    - Investigate ways to mitigate the impact of insolvencies on policyholders, including whether to revive work on the 1992 draft of the Title Insurance Guaranty Fund Model Act. Consider the merits of promoting the use of blanket lenders' policies and individual owners' policies to replace policies issued by now-insolvent insurers. Report the results by the 2010 Fall National Meeting—*Essential*

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE *(Continued)*

- Investigate ways to maintain and improve competitive title markets, including examining and evaluating the original purposes and current effectiveness of monoline title insurance laws. Report the results by the 2010 Fall National Meeting—*Essential*
- Determine an appropriate format for communicating the various findings of the Working Group, such as writing a white paper, crafting best practice guidelines, or revising the Title Insurers Model Act (#628) and Title Insurance Agent Model Act (#230), by the 2010 Fall National Meeting. Produce a draft document in the chosen format by the 2010 Fall National Meeting—*Essential*
- Monitor the developments of the U.S. Department of Housing and Urban Development (HUD)-proposed changes to its Real Estate Settlement Procedures Act (RESPA) and provide comments to HUD or to the U.S. Congress, if necessary. Respond to RESPA or HUD proposals by the due dates established by HUD. Monitor, facilitate and report on the HUD Collaborative Enforcement Group, which involves monthly conference calls between state insurance regulators and HUD on investigations—*Important*
- Consider whether or how to assist in combating mortgage fraud. Report the results by the 2010 Fall National Meeting—*Important*
- Study whether the title insurance industry is undertaking additional financial risks at the request of institutional lenders and owners—*Deferrable*
- Study the issuance of mortgage impairment products by non-title insurers to determine whether they should be classified as title insurance—*Deferrable*
- Study captive reinsurance arrangements that title insurers maintain and determine if they are legitimate reinsurance transactions or simply gimmicks to avoid the application of laws that would prohibit rebating and, if necessary, make recommendations for needed reform—*Deferrable*
- Study affiliated business arrangements (ownership arrangements between and among settlement providers and title entities) to determine which types of arrangements are legitimate and which types of arrangements are "shams"; i.e., those structured mainly to capture referral business and provide kickbacks to settlement providers, and that do not perform essential core title services—*Deferrable*
- Study the appropriateness of title insurance rates in light of the current competitive environment and, in particular, determine what constitutes appropriate justification for rates, determine the effect affiliated business arrangements should have on rates, and determine the feasibility of interactive rate comparisons among title entities to enhance competition—*Deferrable*

11. Appoint a **Terrorism Insurance Implementation Working Group** to coordinate the NAIC efforts to address insurance coverage for acts of terrorism. Work with the U.S. Department of the Treasury's Terrorism Risk Insurance Program Office on matters of mutual concern. Discuss long-term solutions to address the risk of loss from acts of terrorism.—*Essential*

12. Appoint a **Consumer Guides Working Group** to review and make modifications to the NAIC Consumer's Guide to Auto Insurance and recommend revisions by the 2010 Summer National Meeting. Develop best practices for the design and implementation of consumer premium comparison guides for personal auto and homeowners insurance by the 2010 Fall National Meeting.—*Essential*

13. Appoint a **Catastrophe Reserve Working Group** to review the current NAIC catastrophe reserve proposal and make a recommendation whether to move the proposal forward, even if the IRS tax code is not amended to allow insurers to establish a tax-deferred catastrophe reserve. The Working Group will make a formal recommendation on whether to proceed with a catastrophe reserve requirement regardless of its tax-deferred status prior to the 2010 Spring National Meeting.—*Essential*

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE *(Continued)*

14. Appoint an **Earthquake Study Group** to study, in coordination with other NAIC working groups and task forces, earthquake matters of concern to insurance regulators; report at each national meeting—*Essential*
    - Review and update *The Final Report of the Earthquake Study Group (February 2000)* so that it provides a basis for understanding and outline for action to be taken by states to respond to earthquake events and risks;
    - Work with seismic and actuarial experts to develop recommendations for measures designed to mitigate losses caused by earthquakes;
    - Study earthquake modeling assumptions and meet with catastrophe modeling vendors to determine if models adequately handle regional differences in loss exposure;
    - Explore multi-state risk-sharing, mitigation and coordination strategies. This includes meeting, as needed, with officials from the Central United States Earthquake Consortium (CUSEC), Western States Seismic Policy Council (WSSPC) and the California Earthquake Authority (CEA);
    - Assist state insurance regulators in determining the availability and affordability of earthquake coverage in their states and assist in dealing with market dislocations and effects on rate level caused by exposure to the earthquake peril. This includes developing, distributing and evaluating a survey to all NAIC members designed to access availability and affordability; and
    - Identify strategies to communicate earthquake risk awareness, preparation, loss mitigation and recovery measures to insurers, producers and consumers. This includes developing a consumer brochure to be finalized in December 2010 and exploring the feasibility of developing a consumer-awareness video.

New Objectives and Goals *(representing new NAIC programs, services or initiatives)*:

1. Appoint a **Catastrophe Insurance Working Group** to provide a forum for discussing various issues related to catastrophe modeling, make recommendations for the appropriate regulatory framework for catastrophe modelers and monitor issues that will result in changes to the *Catastrophe Computer Simulation Modeling Handbook—Essential*

2. Work collaboratively with the Market Regulation and Consumer Affairs (D) Committee to continue public discourse on credit-based insurance scores to*:*
    - Define what constitutes a credit-based insurance score—*Essential*
    - Evaluate how insurers use credit-based insurance scores—*Essential*
    - Determine how current economic conditions have affected policyholder premiums related to credit-based insurance scores—*Essential*
    - Provide a report documenting findings and including recommendations for regulatory or legislative action, if warranted. Complete the report by the 2010 Fall National Meeting—*Essential*

3. Following a catastrophe, diverse regulatory mandates increase insurer uncertainty and might divert insurer resources that are needed to respond to claims. To provide added certainty for insurers and regulators in advance of a major disaster, procedures need to be in place so that regulators and insurers know what to expect and insurers are prepared to comply. To address these concerns, develop a model law, regulation or guideline to standardize insurer premium collection procedures, underwriting limitations, claims handling processes, and claims data reporting requirements that a state could adopt in advance of a catastrophe and activate after a catastrophe—Important~~.~~

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE *(Continued)*

4. Discuss and evaluate the use of new and innovative risk classifications and risk evaluation tools used by the insurance industry to classify personal lines risks for rating and underwriting purposes. Provide a report documenting findings and including recommendations for regulatory or legislative action, if warranted. Complete the report by the 2010 Fall National Meeting—Important

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Thomas R. Sullivan	**Michael T. McRaith**	**James J. Donelon**
Connecticut	**Illinois**	**Louisiana**

Staff Support: Eric C. Nordman

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate and develop solutions to actuarial problems and statistical issues in the property/casualty insurance industry. The Task Force's goals are to maintain the financial health of property/casualty insurers and to ensure that appropriate data regarding property/casualty insurance markets are available.

Ongoing Maintenance of NAIC Programs, Products, or Services

1. Provide reserving, pricing, ratemaking, statistical and other actuarial support to NAIC committees, task forces and working groups. Propose changes to the appropriate work products (with the most common work products noted below) and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities, including the development of financial services regulations and statistical (including disaster) reporting, relating to casualty actuarial issues—*Essential*

    - Blanks (E) Working Group (property/casualty annual statement, including Schedule P; property/casualty quarterly statement; property/casualty quarterly and annual statement instructions, including Statement of Actuarial Opinion)
    - Statutory Accounting Principles (E) Working Group and Emerging Accounting Issues (E) Working Group (*Accounting Practices and Procedures Manual*)
    - Capital Adequacy (E) Task Force (property/casualty risk-based capital report)
    - Financial Analysis Handbook (E) Working Group (property/casualty actuarial sections of the *Financial Analysis Handbook*)
    - Financial Examiners Handbook (E) Technical Group (property/casualty actuarial sections of the *Financial Condition Examiners Handbook*)
    - Operational Efficiencies (EX) Working Group (property/casualty actuarial sections of the *Product Filing Examiners Handbook*)
    - Disaster Reporting (E) Working Group (disaster reporting framework)

2. Identify the types of data that are necessary to properly evaluate the medical liability insurance market—including the frequency, severity and causes of loss—in order to evaluate regulatory and legislative proposals. Identify the sources of this data and the steps necessary to capture it, including changes needed in the *Statistical Handbook of Data Available to Insurance Regulators*, and the need to develop claims databases or other appropriate means of capturing the necessary information—*Essential*

3. Consider updates and developments, provide technical assistance and oversee the production of the following reports and databases. Also, periodically evaluate the demand, utility and income derived vs. the costs of production of each product—*Essential*
    a. *Report on Profitability by Line by State* (Charge the Profitability Working Group with producing this report on an annual basis.)
    b. Homeowners Average Premium Report
    c. *Auto Insurance Database*
    d. *Market Share Reports for Groups and Companies – Property/Casualty*
    e. *Property and Casualty Competition Database Report*

4. Monitor activities related to establishing life insurance principle-based reserving and provide guidance based on experiences with establishing property/casualty principle-based reserving—*Important*

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE *(Continued)*

5. Monitor national casualty actuarial developments and consider regulatory implications—*Important*
   - Casualty Actuarial Society (Statements of Principles and *Syllabus of Basic Education*)
   - American Academy of Actuaries (Standards of Practices)
   - Federal legislation

6. Provide property/casualty actuarial advice and assistance to the International Solvency (EX) Working Group, including providing commentary as needed on relevant draft reports of the International Actuarial Association and other international bodies—*Important*

7. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators—Important*

Sponsors for Proposed 2010 Charges
(Except as noted, I support all charges)

Thomas R. Sullivan	**Mary Jo Hudson**	**Mike Kreidler**
Connecticut	**Ohio**	**Washington**

Staff Support: Kris DeFrain

SURPLUS LINES (C) TASK FORCE

The mission of the Surplus Lines (C) Task Force is to monitor the surplus lines market and its operation and regulation, including the activity and financial condition of U.S. and non-U.S. surplus lines insurers by providing a forum for discussion of issues and to develop or amend model regulation.

Ongoing Support of NAIC Programs, Products, or Services:

1. Maintain the IID Plan of Operation and its requirements relating to standards for inclusion on the NAIC *Quarterly Listing of Alien Insurers* ("Quarterly Listing") concerning capital and/or surplus funds, U.S. trust accounts and fitness of management among other criteria. This charge is ongoing and will be assumed by the **IID Plan of Operation Review Group**—*Essential*

2. Provide NAIC/IID financial staff guidance and expertise relative to regulatory policy and practices with respect to individual companies and Lloyd's syndicates that are either listed on or seeking admission to the Quarterly Listing. This charge is ongoing and will be assumed by the **Surplus Lines Financial Analysis Working Group**. The authority of the Working Group is limited to that of an advisory body, with a goal of formulating recommendations to the Chairs of the Task Force and Property and Casualty Insurance (C) Committee for the appropriate regulatory response. Issues upon which the Surplus Lines Financial Analysis Working Group may formulate a recommendation might include, but are not limited to, approval or disapproval of applicants to the Quarterly Listing, delisting of listed insurers, changes to trust fund requirements, or placement of limitations or restrictions on a listed insurer's business activity in the United States—*Essential*

3. Perform financial analysis of surplus lines market utilizing the NAIC Financial Data Repository and other sources in order to prepare a regulator report—*Important*

4. Consider a uniform method of allocating and/or reporting surplus lines and independently procured insurance premium tax on multi-state risks and any other surplus lines issues. This charge is assumed by the **Multi-State Surplus Lines Premium Tax Working Group**—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Linda S. Hall	**James J. Donelon**	**Merle D. Scheiber**
Alaska	**Louisiana**	**South Dakota**

Staff Support: Robert Schump/David Vacca

WORKERS' COMPENSATION (C) TASK FORCE

The mission of the Workers' Compensation (C) Task Force is to study the nature and effectiveness of state approaches to workers' compensation and related issues, including but not limited to, assigned risk plans, safety in the workplace, treatment of investment income in rating, occupational disease, cost containment, and the relevance of adopted NAIC model laws pertaining to workers' compensation.

Ongoing Support of NAIC Programs, Products, or Services:

1. Discuss issues arising with respect to advisory organization and insurer filings for workers' compensation—*Essential*

2. Appoint a **Large Deductible Study Implementation Working Group** to ensure that the NAIC charges presented in the Findings and Recommendations of the NAIC *Workers' Compensation Large Deductible Study* are properly completed. The Working Group is to report the results of their ongoing charge at each national meeting—*Important*

3. Appoint a **NAIC/IAIABC Joint Working Group** as it studies issues of mutual concern to insurance regulators and workers' compensation administrators. Review relevant model laws and papers and consider possible charges in light of the joint working group recommendations. The Working Group is to report the results of their ongoing charge at each national meeting—*Important*

4. Appoint a **Professional Employer Organization Model Law Working Group** to complete development of a paper to be of assistance to states in the implementation of the NAIC Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (#1950); to coordinate with other NAIC groups on issues relating to professional employer organizations; and to follow changes in the professional employer organization marketplace. The Working Group is to report the results of their ongoing charge at each national meeting —*Important*

New Objectives and Goals *(representing new NAIC programs, services, or initiatives)*:

1. Appoint a **Model Law Review Working Group** to review older workers' compensation model laws and regulations for relevance, in accordance with NAIC Standards for Model Law Review. Make recommendations regarding whether the particular model law or regulation should be deleted, amended or kept in its current form. The Working Group is to report the results of their ongoing charge at each national meeting—*Deferrable*

2. Provide assistance to participating states in conducting a 2010 multi-state examination of the National Council on Compensation Insurance—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Kevin M. McCarty
Florida

William W. Deal
Idaho

Kim Holland
Oklahoma

Merle D. Scheiber
South Dakota

Staff Support: Robert H. Card

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

The mission of the Market Regulation and Consumer Affairs (D) Committee is to monitor all aspects of the market regulatory process for continuous improvement. This includes market analysis, regulatory interventions with companies, and multi-jurisdictional collaboration. The Committee will also review and make recommendations regarding the underwriting and market practices of insurers and producers as those practices affect insurance consumers, including availability and affordability of insurance.

Ongoing Support of NAIC Programs, Products, or Services:

1. Provide policy recommendations regarding centralized collection and storage of market conduct data, national analysis and reporting at the NAIC, and monitor implementation, with a specific focus on confidentiality and public availability of data—*Essential*

2. Finalize formal accreditation standards for market regulation to provide minimum standards for market regulation which all states should follow—*Essential*

3. Appoint a **Market Actions Working Group** of 16 individuals to facilitate interstate communication and coordinate collaborative state regulatory actions—*Essential*

4. Appoint a **Market Analysis Procedures Working Group** to: (1) define scope of a "formal and rigorous market analysis program;" evaluate established market analysis procedures and make recommendations for enhancement and/or improvement; (2) determine minimum required skills necessary for market analysis professionals, and make recommendations regarding essential education (3) develop, prioritize and coordinate data collection and analysis techniques including recommendations regarding the expansion of the data elements for Market Conduct Annual Statement; and (4) develop analysis techniques to ensure states expand their focus on company-specific issues to general market problems, market analysis is completed at both the company and group level, market analysis is completed on a state, regional and national basis—*Essential*

5. Appoint a **Market Conduct Examination Standards Working Group** to develop market conduct examination standards—*Essential*

6. Appoint a **Consumer Connections Working Group** to: (1) provide a forum for dialogue among the state consumer service representatives to share best practices and enhance consumer advocacy efforts; (2) provide a forum for dialogue among state consumer service representatives, consumer groups, regulators, and industry regarding current marketplace issues; (3) advance recommendations to the D Committee for further interaction with appropriate technical working groups and receive tasks as assigned by the D Committee; and (4) provide policy oversight for the NAIC Consumer Information Source—*Essential*

7. Develop a work product outlining best practices and guidelines for use by state insurance regulators in developing information disclosures to insurance consumers. The product would include a discussion of situations in which consumer disclosures are appropriate and can reasonably be expected to address a market problem and/or empower consumers. The best practices and guidelines in the work product would address both effective ways to create information disclosures as well as to deliver them and would be applicable across product lines.

8. Monitor activities of the Antifraud (D) Task Force—*Essential*

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE *(Continued)*

9. Monitor the underwriting and market practices of insurers and producers, and conditions of insurance marketplaces, including urban markets, to identify specific market conduct issues of importance and concern and hold a public hearing on these issues at the NAIC National Meetings, as appropriate—*Important*

10. In collaboration with other technical working groups, discuss and share best practices through public forums to address broad consumer concerns regarding personal insurance products.

New Objectives and Goals *(representing new NAIC programs, services, or initiatives)*:

1. Monitor the activities of the Market Information Systems (D) Task Force—*Essential*

2. Assess the current process for multi-jurisdictional activities, including how to increase the emphasis on market analysis over examinations and the scope of domestic state responsibility—*Essential*

3. Coordinate with the International Insurance Relations (EX) Leadership Group to develop input and comments to the International Association of Insurance Supervisors (IAIS) or other related groups on issues regarding market regulation concepts—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Ralph S. Tyler, III **Maryland**	**Neil N. Jasey** **New Jersey**	**Kim Holland** **Oklahoma**

Staff Support: Timothy B. Mullen/Craig L. Leonard

ANTIFRAUD (D) TASK FORCE

The mission of the Antifraud (D) Task Force is to serve the public interest by assisting the state insurance supervisory officials, individually and collectively to promote the public interest through the detection, monitoring and appropriate referral for investigation of insurance crime, both by and against consumers. The Task Force will assist the insurance regulatory community through the maintenance and improvement of electronic databases regarding fraudulent insurance activities. Disseminate the results of research and analysis of insurance fraud trends as well as case-specific analysis to the insurance regulatory community. Provide a liaison function between insurance regulators, federal, state, local, and international law enforcement and other specific antifraud organizations. Coordinate between state and federal regulators regarding the USA PATRIOT Act anti-money laundering amendments to the Bank Secrecy Act. The Task Force will also serve as a liaison with the NAIC Information Systems Division and other NAIC committees to develop technological solutions for data collection, and information sharing. The Task Force will monitor all aspects of antifraud activities by its working groups and subgroups on the following charges.

Ongoing Support of NAIC Programs, Products, or Services:

1. Appoint the **Antifraud Training and Seminar Working Group** to evaluate alternative training sessions and online courses regarding insurance fraud issues of importance for insurance regulators, the industry and interested parties; develop and present the Advanced Antifraud Seminar; develop the agenda for the 2011 Basic Insurance Fraud Investigation Training for Regulators; and develop educational course targeting investigations of enforcement actions—*Essential*

2. Appoint the **Information Sharing and Technology Working Group** to evaluate sources of antifraud data and propose methods for enhancing the utilization and exchange of information among insurance regulators, fraud investigative divisions, law enforcement officials, insurers and antifraud organizations; recommend secure systems for the dissemination of confidential information between insurance fraud agencies; and develop or address any other projects related to technology or information-sharing that develop over the following year—*Essential*

3. Appoint the **Antifraud Liaison Working Group** to explore alternatives to enhance relationships with the industry's special investigation units (SIUs), external private sector antifraud entities and antifraud organizations; update the *Survey on State Insurance Department Antifraud Resources Report*; develop an antifraud plan guideline; review participation in or provide support for "National Insurance Fraud Prevention Week/Day" or similar project supported by outside organizations; provide advisory role to the Coalition Against Insurance Fraud (CAIF), International Association of Special Investigation Units (IASIU), National Insurance Crime Bureau (NICB), National Healthcare Antifraud Association (NHCAA) and other antifraud associations as necessary or requested; and track national insurance fraud trends and provide information—*Essential*

4. Appoint the **Federal and International Enforcement Coordination Working Group** to coordinate with state, federal and international law enforcement agencies in addressing antifraud issues relating to the insurance industry; support insurance regulator efforts to gain access to the FBI Fingerprint Identification Record System/Criminal History Record Identification System; monitor and recommend appropriate guidance on state issues arising from the application of 18 U.S.C. 1033, 1034; complete revision of existing 18 USC 1033, 1034 guidelines; and develop recommendations to increase mandatory coordination between federal government and state insurance regulators regarding health care fraud and abuse program—*Essential*

ANTIFRAUD (D) TASK FORCE *(Continued)*

5. Appoint the **Agent and Unlawful Activities Working Group** to develop methods to enhance the investigation and prosecution of agent fraud; identify and develop recommendation for coordination and cooperation between state insurance department and law enforcement authorities on insider insurance fraud; develop recommendations to enhance and increase mutual data-sharing between state insurance regulators and the U.S. Centers for Medicare and Medicaid Services (CMS); develop recommendations to increase collaboration regarding fraud investigations with CMS; and in conjunction with the Antifraud Training and Seminar Working Group, develop educational programs regarding investigations in enforcement actions—*Essential*

6. Appoint the **Securities Enforcement Coordination Working Group** to develop an education and training seminar in cooperation with representatives from securities regulation; and identify and develop recommendations for cooperation and communication between insurance and securities regulators—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Susan E. Voss	**Sandy Praeger**	**Kim Holland**
Iowa	**Kansas**	**Oklahoma**

Staff Support: Keri Kish

FINANCIAL CONDITION (E) COMMITTEE

The mission of the Financial Condition (E) Committee is to be the central forum and coordinator of solvency-related considerations of the NAIC relating to accounting practices and procedures, blanks, valuation of securities, the Insurance Regulatory Information System (IRIS), financial analysis and solvency, zone examinations and examiner training, and issues concerning insurer insolvencies and insolvency guarantees. In addition, the Committee interacts with the technical task forces.

Ongoing Maintenance of NAIC Programs, Products or Services

1. The Financial Condition (E) Committee will monitor all of the changes to the *Annual/Quarterly Statement Instructions*, risk-based capital formulas, *Financial Condition Examiners Handbook*, *Accounting Practices and Procedures Manual, Financial Analysis Handbook*, *Purposes and Procedures Manual of the NAIC Securities Valuation Office,* NAIC model laws, NAIC accreditation standards and other NAIC publications. This charge is ongoing—*Essential*

2. The **Capital and Surplus Relief Working Group** will consider an implementation schedule for the Working Group recommendations—*Important*

   As assigned, consider any process changes or other related issues brought to light when developing the Capital and Surplus Relief Working Group recommendations—*Important*

3. The **Credit Default Swap Working Group** will assist the membership with any policy issues related to credit default swaps, if a holistic approach is not taken by the U.S. Congress to address the issues previously identified by the NAIC—*Essential*

   Consider, as necessary, the recommended courses of action suggested by the technical committees in addressing the potential areas where financial regulation can be fortified; assist with summarizing this information to the membership on a periodic basis—*Important*

4. The **Financial Analysis Working Group** will analyze nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; determine if appropriate action is being taken—*Essential*

   Interact with domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and action(s)—*Essential*

   Support, encourage, promote, and coordinate multi-state efforts in addressing solvency problems, including identifying adverse industry trends—*Essential*

   Review and make appropriate updates and enhancements to the *Troubled Insurance Company Handbook—Essential*

   Upon notice a security has been placed under regulatory review, the chair of Financial Analysis Working Group, or his or her representative, will be deemed a member of the Invested Asset Working Group of the Valuation of Securities Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review—*Essential*

FINANCIAL CONDITION (E) COMMITTEE *(Continued)*

5. The **Financial Guaranty Insurance Guideline Working Group** will, after action is taken by the New York State Insurance Department or other states, consider the need to modify the Financial Guaranty Insurance Guideline (#1626)—*Essential*

   Provide a recommendation to the Committee on what, if any, changes should be made to this NAIC guideline—*Essential*

6. The **Investment of Insurers Model Act Revisions Working Group** will study the need to modify the Investments of Insurers Model Act (#280 and #283) by gathering input from all states regarding the use of the existing models and their effectiveness in addressing the issues that exist within insurers' portfolios, particularly during this most recent economic downturn. At the conclusion of such study, provide a recommendation to the Committee, including a request for model law development/change, if the recommendation is for the NAIC to devote its resources to such an effort—*Essential*

7. The **NAIC/AICPA Working Group** will continually review the Annual Financial Reporting Model Regulation (#205) and its corresponding implementation guide; revise as appropriate—*Essential*

   Address financial solvency issues by working with the AICPA and responding to the AICPA exposure drafts. This charge is ongoing—*Essential*

   Monitor the federal Sarbanes-Oxley Act, as well as rules and regulations promulgated by the U.S. Securities and Exchange Commission, the Public Company Accounting Oversight Board, and other financial services regulatory entities—*Essential*

   Review annually the premium threshold amount included in Section 16 of the Annual Financial Reporting Model Regulation (#205) with the general intent that those insurers subject to the Section 16 requirements would capture at least approximately 90% of industry premium and/or in response to any future regulatory or market developments—*Essential*

8. The **National Treatment and Coordination Working Group** will increase utilization and implementation of the *Company Licensing Best Practices Handbook* by regulators—*Essential*

   Continue to reduce state-specific requirements, including the need for hardcopies, for the forms and supplemental information involved in Uniform Certificate of Authority Application (UCAA) and to streamline the application process—*Essential*

   Continue to enhance all electronic tools relating to UCAA to increase user-friendliness, accuracy and utility, and to increase its usage by the industry and regulators—*Essential*

   Address the future work items identified in the completion of the *Company Licensing Best Practices Handbook* project. In collaboration with the Speed to Market (EX) Task Force, encourage synergies between corporate changes/amendments and rate and form filing review and approval to improve efficiency—*Important*

9. The **Rating Agency Working Group** will conduct a comprehensive evaluation of the reliance on nationally recognized statistical rating organization (NRSRO) ratings by the NAIC, the insurance industry and the insurance marketplace. The Working Group will assess and gather information on: (a) the problems inherent in reliance on ratings, including the filing exempt process and RBC; (b) the reasons for recent rating shortcomings, including, but not limited to, structured security and municipal ratings; (c) the current and potential future impact of ratings on state insurance financial solvency regulation; and (d) the effect of the use of NRSRO ratings on public confidence and public perception of the quality of insurance regulatory oversight. The Working Group will draft and present a final report documenting the findings and any recommendations for corrective action available to the NAIC and its members, as well as possible regulatory recommendations to the federal government—*Important*

FINANCIAL CONDITION (E) COMMITTEE *(Continued)*

10. The **Restructuring Mechanisms for Troubled Companies Subgroup** will undertake a study of solvent schemes of arrangement (solvent run-offs) and Part VII portfolio transfers (a transfer leaving no recourse to original contractual obligor/insurer) and any other similar alternative mechanisms to handle troubled insurers (other than receivership proceedings) to gain an understanding of (a) how these mechanisms are utilized and implemented; (b) the potential affect on claims of domestic companies, including the consideration of preferential treatment within current laws; (c) how alien insurers (including off-shore reinsurers) who have utilized these mechanisms might affect the solvency of domestic companies; and (d) best practices for state insurance departments to consider if utilizing similar mechanisms in the United States and/or interacting with aliens who have implemented these mechanisms—*Important*

New Objectives and Goals (representing new NAIC programs and initiatives)

11. The **Separate Accounting Risk Charge Working Group** will study the need to develop new regulatory guidance requiring the establishment of risk charges for the risk assumed by the general account in support of individual separate account products guaranteed by the general account. At the conclusion of such study, provide a recommendation to the Financial Condition Committee, including a request for Model Law Development/Change if the recommendation is for the NAIC to devote its resources to such an effort—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Susan E. Voss **Iowa**	**Joseph Torti, III** **Rhode Island**	**Alfred W. Gross** **Virginia**

Staff Support: Todd Sells/Dan Daveline

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

The mission of the Accounting Practices and Procedures (E) Task Force is to identify, investigate and develop solutions to accounting problems with the ultimate goal of guiding insurers in properly accounting for various aspects of their operations and to modify the *Accounting Practices and Procedures Manual* to reflect changes necessitated by task force action and to study innovative insurer accounting practices which affect the ability of regulators to determine the true financial condition of insurers.

Ongoing Support of NAIC Programs, Products, or Services:

1. Appoint the **Emerging Accounting Issues Working Group** to provide authoritative guidance on current statutory accounting issues, generally relating to application, interpretation, and clarification of existing statutory accounting principles, by conducting meetings at NAIC national meeting sites when necessary. Evaluate individual statutory accounting issues based on its established two-meeting timeline and report its findings to the Accounting Practices and Procedures Task Force—*Essential*

2. Appoint the **Statutory Accounting Working Group** to maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new GAAP pronouncements as they develop—*Essential*

   At the discretion of the chair, comment on exposed GAAP pronouncements affecting financial accounting and reporting. Report its findings relative to these developing issues to the Task Force—*Essential*

   Accumulate and summarize information from regulators, the industry, auditors and others, on implementation issues related to transitioning to International Financial Reporting Standards (IFRS) for statutory reporting, as well as some of the more significant issues that would need to be considered in implementing such a change—*Important*

   Upon notice a security has been placed under regulatory review, the chair of Statutory Accounting Principles Working Group, or his or her representative, will be deemed a member of the Invested Asset Working Group of the Valuation of Securities (E) Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review—*Essential*

3. Appoint the **Blanks Working Group** to consider improvements and revisions to the various annual/quarterly statement blanks and to conform these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers; to develop reporting formats for other entities subject to the jurisdiction of state insurance departments; to conform the various NAIC blanks and instructions to adopted NAIC policy; and to oversee the development of additional reporting formats within the existing annual statements as needs are identified—*Essential*

   Continue to monitor state filing checklists to maintain current filing requirements—*Essential*

   Continue to monitor the quality of financial data filed by insurance companies and recommend improved or additional languages for the *Annual Statement Instructions* to improve the quality of these filings—*Essential*

   Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Task Force affecting annual statements and/or instructions—*Essential*

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE *(Continued)*

Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces—*Essential*

Upon notice that a security has been placed under regulatory review, the chair of the Blanks Working Group, or his or her representative, will be deemed a member of the Invested Asset Working Group of the Valuation of Securities (E) Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review—*Essential*

4. The **Property and Casualty Reinsurance Study Group** will evaluate, on an ongoing basis, all issues and questions related to the accounting for or annual statement reporting of reinsurance transactions that might affect SSAP No. 62, SSAP No. 75 or other portions of the *Accounting Practices and Procedures Manual,* and make appropriate recommendations to the Task Force—*Essential*

   Monitor, on an ongoing basis, the development of "alternative risk transfer mechanisms" and consider whether broader annual statement disclosure might be appropriate—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Ann Frohman **Nebraska**	**Roger A. Sevigny** **New Hampshire**	**Joseph Torti, III** **Rhode Island**
Kent Michie **Utah**	**Mike Kreidler** **Washington**	

Staff Support: Robin Marcotte/Dan Daveline

CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

Ongoing Support of NAIC Programs, Products, or Services:

1. Evaluate refinements to the existing NAIC risk-based capital formulas implemented in 2009. Forward final version of the structure of the 2010 life, property and casualty, and health risk-based capital (RBC) formulas to Financial Condition (E) Committee by June 2010—*Essential*

2. Consider proposals for structural changes to the RBC formulas (including proposals related to a principle-based RBC approach) submitted by the working groups/subgroups. Proposed structural changes to the 2011 formulas received by the 2010 Fall National Meeting will be considered for adoption by the Task Force, and adopted changes will be forwarded to the Committee by March 2011—*Essential*

3. Review the effectiveness of the NAIC's RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability between the RBC formulas. Report on data quality problems in the 2009 RBC filings at the summer and fall national meetings—*Essential*

4. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* to ensure model laws, publications, formulas, analysis tools, etc., supported by the Task Force continue to meet regulatory objectives—*Essential*

5. Evaluate emerging "risk" issues for referral to the risk-based capital working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas—*Essential*

6. Conduct a regulatory review of the 2007, 2008, and 2009 RBC filings and associated company records in order to assess the impact resulting from implementation of the principle-based changes to the life RBC formula. Monitor implementation and impact of the adopted changes, as well as provide responses to the Principles-Based Reserving (EX) Working Group, regarding how the proposed expansion to the principle-based approach affects all of the RBC formulas. Also develop and review disclosure-documentation and governance protocols to be used by regulators and companies—*Essential*

7. Upon notice that a security has been placed under regulatory review, the chair of Task Force, or his or her representative, will be deemed a member of the Invested Asset Working Group of the Valuation of Securities (E) Task Force. The chair, or his or her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review— *Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Gennet Purcell **District of Columbia**	**James J. Wrynn** **New York**	**Alfred W. Gross** **Virginia**

Staff Support: Dan Swanson

EXAMINATION OVERSIGHT (E) TASK FORCE

The mission of the Examination Oversight (E) Task Force is to monitor all aspects of the financial examination process and to identify, investigate, and develop solutions to problems related to financial examinations; to monitor and refine the IRIS ratios and the Financial Analysis Solvency Tools, including Company Profiles, FAST ratio scoring system, and the *Financial Analysis Handbook*; to oversee the Analyst Team Project; to review details of examination surveillance process; to monitor the development of tests for determining when a financial examination of an insurer is necessary; to establish procedures for flow of information between states on troubled companies; to enhance the quality and timeliness of financial examinations and monitor additions to the *Financial Condition Examiners Handbook* covering this area; and to monitor the examination schedules in various states and assist the states in developing methods to maintain current schedules.

Ongoing Support of NAIC Programs, Products, or Services:

1. Provide ongoing maintenance and enhancements to the Form A Database, monitor the usage and encourage state participation—*Essential*

2. Provide input and comments to the International Association of Insurance Supervisors (IAIS) or other related groups on issues regarding international risk-management concepts; coordinate such comments with the International Solvency (EX) Working Group—*Important*

3. Recommend salary rate adjustments for examiners—*Essential*

4. Provide ongoing maintenance and enhancements to the NAIC Lead State Summary Report tool and encourage coordination with solvency matters—*Essential*

5. Appoint the **Analyst Team System Oversight Working Group** to monitor the work performed by the Analyst Team and the progress of any changes made to the Analyst Team Project—*Essential*

6. Appoint the **Financial Analysis Research and Development Working Group** to provide ongoing maintenance and enhancements to the automated financial solvency tools developed to assist in monitoring the financial condition of insurance companies. Prioritize analysis and examination efforts to ensure the tools remain reliable and accurate—*Essential*

   Review current financial analysis solvency tools for life insurance companies for consideration of risk with reserve liabilities as affected by principles-based reserving standards; make appropriate enhancements as necessary—*Important*

7. The **Financial Analysis Handbook Working Group** will provide ongoing maintenance and enhancements to the NAIC *Financial Analysis Handbook* and related applications for changes to the NAIC annual/quarterly statement blanks, as well as coordinate and analyze input received from other state regulators—*Essential*

   Continue incorporating the assessment of risk and risk management into the financial analysis oversight role—*Essential*

   Review current guidance in the NAIC *Financial Analysis Handbook* regarding the analysis of reserve liabilities for life insurance companies and make appropriate revisions based on the finalized principles-based reserving standards—*Important*

   Develop enhancements to the financial analysis process that encourage coordination of analysis activities between states with regard to holding company groups—*Essential*

EXAMINATION OVERSIGHT (E) TASK FORCE *(Continued)*

8. The **Financial Examiners Coordination Working Group** will develop enhancements to the financial examination process that encourage coordination of examination activities with regard to holding company groups—*Essential*

   Provide ongoing maintenance and enhancements to the Examination Tracking System (ETS). The Working Group also will provide reports to the Task Force regarding usage of ETS, including examination and coordination statistics—*Essential*

9. The **Financial Examiners Handbook Technical Group** will continue incorporating the assessment of risk and risk management into the financial solvency oversight role—*Essential*

   Continually review the NAIC *Financial Condition Examiners Handbook* and revise, as appropriate—*Essential*

   Review annually the examination procedures included within the NAIC *Financial Condition Examiners Handbook* for updates in response to revisions to the NAIC *Accounting Practices and Procedures Manual—Essential*

   Continually review the Annual Financial Reporting Model Regulation (#205) and revise the NAIC *Financial Condition Examiners Handbook,* as appropriate—*Essential*

   Monitor the implementation of the revised risk-assessment process by receiving feedback, conducting training courses and performing ongoing maintenance—as well as developing additional guidance and exhibits within the NAIC *Financial Condition Examiners Handbook* as needed to assist examiners in completing financial condition examinations—*Important*

   Review current guidance in the NAIC *Financial Condition Examiners Handbook* regarding the examination of reserve liabilities for life insurance companies and recommend appropriate revisions based on the finalized principles-based reserving standards—*Important*

10. Appoint the **IT Examination Working Group** to monitor state usage of automated examination tools (ACL and TeamMate), technology changes and emerging issues in order to re-evaluate examination processes and keep states abreast of the latest tools, techniques and training—*Essential*

    Enhance current training opportunities for auditing tools and techniques: IT Examination, Introductory ACL, Advanced ACL and TeamMate. Continue offering on-site training programs that are available to states upon request—*Essential*

    Continually review and revise, as needed, the "Examination of Computer-Based Operations" and "Exhibit C—Evaluation of Controls in Information Systems" sections of the NAIC *Financial Condition Examiners Handbook—Essential*

    Develop and maintain tools that will be part of a more complete IT examination process—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Susan E. Voss **Iowa**	**Ken Ross** **Michigan**	**Mary Jo Hudson** **Ohio**

Staff Support: Bruce Jenson/David Vacca

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

The mission of the Receivership and Insolvency (E) Task Force shall be administrative and substantive as they relate to issues concerning insurer insolvencies and insolvency guarantees. Such duties include, without limitation, monitoring the effectiveness and performance of state administration of receiverships and the state guaranty fund system; coordinating cooperation and communication among regulators, receivers and guaranty funds; monitoring ongoing receiverships and reporting on such receiverships to NAIC members; developing and providing educational and training programs in the area of insurer insolvencies and insolvency guarantees to regulators, professionals and consumers; developing and monitoring relevant model laws, guidelines and products; and providing resources for regulators and professionals to promote efficient operations of receiverships and guaranty funds.

Ongoing Support of NAIC Programs, Products, or Services:

1. Monitor progress of Insurer Receivership Model Act (#555); Property and Casualty Guaranty Association Model Act (#540); Life and Health Insurance Guaranty Association Model Act (#520); adoption by the states (and/or components of the model); provide assistance with the model as requested; and perform additional work as directed by the Financial Condition (E) Committee—*Essential*

2. Promote receivership best practices through: (a) technical assistance with NAIC training programs, accreditation standards and the judicial training project; (b) updates to the *Receivers Handbook for Insurance Company Insolvencies* and the uniform data standards, when needed; (c) maintenance and enhancement of existing receivership technology applications, including the Global Receivership Information Database (GRID) and ClaimNet; and (d) coordination with stakeholders—*Essential*

3. Identify and recommend possible solutions to address timing and collection concerns with reinsurance recoverables held by insurers in receivership—*Essential*

Sponsors for 2009 Charges
(Except as noted, I support all charges)

Karen Weldin Stewart **Delaware**	**Susan E. Voss** **Iowa**	**Mike Geeslin** **Texas**

Staff Support: David Vacca

REINSURANCE (E) TASK FORCE

The mission of the Reinsurance (E) Task Force is to monitor and coordinate activities and areas of interest, which overlap to some extent the charges of other working groups, specifically the International Insurance Relations (G) Committee.

Ongoing Support of NAIC Programs, Products, or Services:

1. Monitor and coordinate activities and areas of interest that overlap to some extent with the charges of other NAIC groups, specifically the International Insurance Relations (G) Committee—*Essential*

2. Provide a forum for the consideration of reinsurance-related issues of public policy—*Essential*

3. Promote and facilitate the implementation of the adopted reinsurance regulatory modernization framework—*Essential*

4. Monitor the activities of the Property and Casualty Reinsurance (E) Study Group for matters that should be considered by the Task Force—*Important*

5. Monitor the development of international reinsurance standards—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Christina Urias **Arizona**	**John Huff** **Missouri**	**Scott H. Richardson** **South Carolina**

Staff Support: Rob Esson

RISK RETENTION GROUP (E) TASK FORCE

The mission of the Risk Retention Group (E) Task Force is as follows:

1. Monitor and evaluate the work of other NAIC committees, task forces and working groups related to risk-retention groups and other types of captive insurers. Specifically, if any of these changes affect the NAIC Financial Regulation and Accreditation Standards program, assess whether and/or how the changes should apply to risk-retention groups—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Susan E. Voss	Joseph Torti, III	Alfred W. Gross
Iowa	Rhode Island	Virginia

Staff Support: Julie L. Glaszczak

VALUATION OF SECURITIES (E) TASK FORCE

The mission of the Valuation of Securities (E) Task Force is to provide regulatory leadership and expertise on investment risk. The Task Force formulates policy recommendations and administrative instructions to regulate investments and investment risk. The Task Force also formulates NAIC policy that governs how analytical tools—for example, credit assessment, valuation and classification of insurer-owned securities—is employed and how analytical insight into investment risk is applied for regulation. The Task Force is supported by the NAIC Securities Valuation Office, which functions in accordance with instructions adopted by the Task Force and contained in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (the *Purposes and Procedures Manual*).

Ongoing Support of NAIC Programs, Products, or Services:

1. Consider and determine proposals to amend the *Purposes and Procedures Manual—Essential*

2. Provide interpretations of the instructions contained in the *Purposes and Procedures Manual*, as the Task Force deems necessary and appropriate—*Essential*

3. Provide assistance to state insurance regulators on issues involving investments made by the insurance industry—*Essential*

4. Review insurers' existing and/or anticipated investments and determine the appropriate credit assessment, valuation or other procedures that should be applied in such analysis. Coordinate the process by which statutory accounting, annual statement instructions, blanks reporting, asset and interest maintenance reserving, risk-based capital and other applicable guidance is formulated—*Essential*

5. As necessary, consider improvements to the process by which risks in invested assets are evaluated, communicated and monitored, and how the annual statement investment schedules could be made to better reflect risks embedded in securities—*Essential*

6. Monitor changes in accounting and reporting requirements resulting from continuing maintenance of the *Accounting Practices and Procedures Manual* to ensure that the *Purposes and Procedures Manual* continues to reflect regulatory objectives—*Essential*

7. Review and monitor ongoing operations of the Securities Valuation Office. From time to time, the Task Force may review any instruction, procedure or methodology in the *Purposes and Procedures Manual* to ensure it continues to reflect regulatory objectives. In this review and monitoring function, the Task Force shall coordinate administrative issues with the Internal Administration (EX1) Subcommittee and other issues with the appropriate NAIC committee—*Essential*

8. Develop, adopt, monitor and revise, as necessary, an annual agenda for the SVO Research Unit—*Essential*

9. Conclude the study begun in 2006 of the derivatives marketplace, to determine whether any changes to the current regulatory regime is appropriate—*Essential*

10. From time to time, the Task Force may determine that the technical nature of some matter before it would be best advanced by convening the Invested Asset Working Group and transferring to it a specific regulatory assignment or assignments. The assignment or assignments thus transferred to the Invested Asset Working Group by the Valuation of Securities Task Force shall be within that charge of the Task Force related to development of a regulatory framework for new or evolving investments or the consideration of refinements for an exiting regulatory framework applicable to an existing class of securities. The phrase "regulatory framework" refers collectively to and means the following regulatory mechanisms or processes: statutory accounting guidance; annual statement instructions; blanks reporting instructions; asset valuation reserves; interest maintenance reserves; risk-based capital charges; valuation procedures for invested assets; credit assessment procedures for invested assets; or any other aspect of the NAIC financial solvency framework within the scope of the charge of the Task Force. The Invested Asset Working Group is charged with the review of matters in the priority established by the Task Force—*Essential*

VALUATION OF SECURITIES (E) TASK FORCE *(Continued)*

The **Invested Asset Working Group** is charged with considering improvements to the process by which risks in new invested assets are evaluated, communicated and monitored, and how the annual statement investment schedules could be made more transparent to better reflect non-credit risks, such as various structural risks embedded in new and existing securities—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Thomas R. Sullivan **Connecticut**	**Alfred W. Gross** **Virginia**	**James J. Wrynn** **New York**

Staff Support: Chris Evangel/Robert Carcano/Richard P. Newman

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

The mission of the Financial Regulation Standards and Accreditation (F) Committee shall be both administrative and substantive as they relate to administration and enforcement of the NAIC Accreditation Program, including without limitation, consideration of standards and revisions of standards for accreditation; interpretation of standards; evaluating and interpretation of states' laws and regulations, and departments' practices, procedures and organizations as they relate to compliance with standards; examining of members for compliance with standards; developing and overseeing procedures for examining members for compliance with standards; selecting qualified individuals to examine members for compliance with standards; and making decisions regarding whether to accredit members.

Ongoing Support of NAIC Programs, Products, or Services:

1. Maintain and strengthen the Financial Regulation Standards and Accreditation Program—*Essential*

2. Assist states, as requested and as appropriate, in implementing laws, practices and procedures, and obtaining personnel required for compliance with the standards—*Essential*

3. Conduct a yearly review of accredited states—*Essential*

4. Consider new model laws; new practices and procedures and amendments to existing model laws; and practices and procedures required for accreditation and determine timing and appropriateness of addition of such new model laws, new practices and procedures and amendments—*Essential*

5. Render advisory opinions and interpretations of model laws required for accreditation and on substantial similarity of state laws—*Essential*

6. Review existing standards for effectiveness and relevancy and make recommendations for change, if appropriate—*Essential*

7. Produce, maintain and update the NAIC *Administrative Policies Manual of the Financial Regulation Standards and Accreditation Program* to provide guidance to state regulators regarding the official standards, policies and procedures of the program—*Essential*

8. Maintain and update the NAIC *Financial Regulation Standards and Accreditation Program* pamphlet—*Essential*

9. Perform enhanced pre-accreditation review services including, but not limited to, additional staff support, increased participation and enhanced report recommendations and informal feedback—*Essential*

Sponsors for 2009 Charges
(Except as noted, I support all charges)

Mary Jo Hudson
Ohio

Kim Holland
Oklahoma

Joseph Torti, III
Rhode Island

Leslie A. Newman
Tennessee

Staff Support: Julie L. Glaszczak/Jeff Loomis

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to strengthen the international insurance regulatory system and provide a forum for cooperative efforts between the NAIC, international regulators, and multinational associations of regulators on issues of mutual interest. The Committee also provides support to the federal government in insurance related international trade issues.

Ongoing Support of NAIC Programs, Products, or Services:

1. Monitor discussions with trading partners by United States Trade Representative (USTR) officials regarding multilateral trade agreements through the World Trade Organization (WTO), including the General Agreement on Trade in Services (GATS), and bilateral trade negotiations by attending meetings with appropriate federal representatives and reviewing and commenting on documents generated through the trade discussions. Continue to work with USTR on the GATS by coordinating and facilitating the compilation of offers and requests and participating in the dialogues and information exchange that accompany these WTO trade talks. Timetable is dependent on federal government, but the Committee will report status at each national meeting. Also assist USTR, Department of Commerce, Treasury Department and other U.S. officials as requested by responding to requests for information, and engage in implementation efforts under existing trade agreements—*Essential*

2. Participate in the Joint Forum and the Financial Stability Board and G20 by coordinating with U.S. financial regulators and by attending meetings to insert the views of U.S. insurance regulators in discussions of issues of significance to insurance commissioners, and by developing NAIC policy and commenting on guidance and principles papers of common interest—*Essential*

3. Appoint the **NAFTA Working Group** to continue to monitor the insurance aspects associated with the North American Free Trade Agreement (NAFTA) and the Security and Prosperity Partnership (SPP). Work to enhance the availability and affordability of cross-border motor carrier insurance, including trucking, personal auto and bus, and the associated topics of health and workers' compensation insurance, and related legal developments. Coordinate state efforts to meeting U.S. trade objectives through coordination with the Trilateral Insurance Working Group and the NAFTA Financial Services Committee; and through insurance training programs and ongoing research of the laws and regulations of Canada, Mexico, and the U.S. to work toward increased harmonization and uniformity and the creation of a seamless market—*Essential*

4. Participate in the Organization for Economic Cooperation and Development (OECD) Insurance and Private Pensions Committee and subcommittee meetings, held in summer and winter at the invitation of the U.S. government, by attending meetings, drafting and commenting on insurance related papers, acting as a coordinating body in the completion of statistical questionnaires, and presenting the U.S. system of insurance regulation—*Essential*

5. Develop NAIC policy and participate in the work of the International Association of Insurance Supervisors (IAIS) by attending Executive, Technical, Solvency and Actuarial Issues, Budget, Reinsurance and Other Forms of Risk Transfer, Insurance Contracts (Accounting), Governance and Compliance, Microinsurance, Market Conduct and other relevant committee, subcommittee and task force meetings. Enhance transparency at the IAIS and facilitate the drafting and commenting on papers that hold a common topical interest including solvency, accounting, reinsurance, group supervision and other aspects of regulation of the business of insurance. Also, attend the IAIS annual conference and interim meetings, present relevant topics at regional training programs, and provide efficient and effective technical assistance—*Essential*

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE *(Continued)*

6. Appoint the **International Regulatory Cooperation Working Group** to strengthen international regulatory systems by interacting with international regulators; reviewing proposed laws and regulations for insurance supervisors in countries changing their regulatory structure and those with emerging economics; conducting an International Intern Program and educational (technical assistance) seminars to provide an understanding of the U.S. system of regulation; and establishing internship opportunities between U.S. and foreign insurance regulatory bodies. In furtherance of this objective, regularly consult with insurance supervisors from other jurisdictions. Communicate regularly and establish working relationships with the U.S. government, the private sector, and international organizations to coordinate efforts whenever possible to provide more efficient and effective technical assistance—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Sandy Praeger	Alfred W. Gross	Jane L. Cline
Kansas	Virginia	West Virginia

Staff Support: George M. Brady

LIFE AND HEALTH ACTUARIAL TASK FORCE

The mission of the Life and Health Actuarial Task Force is to identify, investigate and develop solutions to actuarial problems in the life and health insurance industry.

Ongoing Maintenance of NAIC Programs, Products, or Services

1. The Life and Health Actuarial Task Force will study the feasibility of a new nonforfeiture law for life insurance and annuities to replace the existing nonforfeiture standards. Provide status reports on this project at each national meeting—*Important*

2. The Task Force will work with the American Academy of Actuaries and the Society of Actuaries to develop a new mortality table for the valuation of payout annuities. Provide status reports on this project at each national meeting—*Important*

3. The **Accident and Health Working Group** will work with the Society of Actuaries to develop a replacement for the 1985 NAIC Cancer Claim Cost Tables as the basis for the valuation of individual cancer policies. Provide status reports on this project at each national meeting—*Important*

4. The Task Force will consider changes to Blanks to include the reporting of channels of distribution information needed to better establish GRET factors—*Important*

5. The Task Force will work with other NAIC committees to recommend any changes required to implement the new reserve requirements for variable annuities. Consider a practice note or white paper for guidance on the credit for hedging in these new requirements—*Important*

6. The Task Force will review AG XXV relative to IRC 7702 and recommend changes, if needed, to address issues with the current levels of preneed insurance—*Important*

7. The Working Group will revise model rules for appropriate long-term care rates, rating practices, and rate changes including a review of closed block of business—*Important*

8. The Working Group will review the Medicare supplement refund formula and revise the Appendix A in the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651), as necessary—*Important*

9. The Task Force will review certain aspects of the Standard Nonforfeiture Law for Individual Deferred Annuities (#805)—*Important*

10. The Working Group will review and update the Guidelines for filing of Rates for Individual Health Insurance Forms (#134)—*Important*

11. The Working Group will work with the Society of Actuaries and the American Academy of Actuaries to develop a replacement for the 1987 Commissioners Group Disability Income Table—*Important*

12. The Task Force will work on implementation of tables necessary for use in current valuation requirements—*Important*

13. The Task Force and Working Group will provide assistance and commentary to other NAIC committees relative to their work on actuarial matters—*Important*

LIFE AND HEALTH ACTUARIAL TASK FORCE *(Continued)*

New Objectives and Goals ***(representing new NAIC programs or initiatives)***

1. The Life and Health Actuarial Task Force will develop and submit proposals to facilitate the implementation of a principles-based approach to valuation. Monitor international developments regarding life and health insurance reserving. Provide reports on this project at each national meeting—*Essential*

2. The Task Force will work with the American Academy of Actuaries and the Society of Actuaries to develop new valuation and nonforfeiture mortality tables for life insurance. Provide reports on this project at each national meeting—*Essential*

3. The Working Group will study the minimum standards applicable to statutory reserves for long-term care insurance. Begin developing a principles-based framework for a set of minimum standards—*Important*

4. The Task Force will review and make recommendations on rules for appropriate reserve mortality tables for simplified issue and guaranteed issue forms of life insurance. Review a revised structure for regulating these forms of life insurance to establish it as a class distinct from industrial and ordinary lines—*Important*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Sandy Praeger **Kansas**	**Scott H. Richardson** **South Carolina**	**Kent Michie** **Utah**

Staff Support: John Engelhardt

NAIC/STATE GOVERNMENT LIAISON COMMITTEE

The mission of the NAIC/State Government Liaison Committee is to discuss issues of common interest to regulators and state officials.

Staff Support: Amanda Yanek

NAIC/CONSUMER LIAISON COMMITTEE

The mission of the NAIC/Consumer Liaison Committee is to assist the NAIC in its mission to support state insurance regulation by providing consumer views on insurance regulatory issues.

Staff Support: Timothy B. Mullen

NAIC/INDUSTRY LIAISON COMMITTEE

The mission of the NAIC/Industry Liaison Committee is to meet at least twice a year to discuss issues of common interest to regulators and insurance industry representatives.

Staff Support: Avery L. Brown

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Attachment Three
Jt. Executive (EX) Committee/Plenary
12/7/09

National Association of Insurance Commissioners

2010 NAIC Proposed Budget

NAIC

Winter National Meeting
December 2009

National Association of Insurance Commissioners

PROPOSED 2010 NAIC BUDGET

TABLE OF CONTENTS

National Association *of* Insurance Commissioners

2010 Proposed Budget
Executive Summary

The National Association of Insurance Commissioners (NAIC) is a voluntary, membership-based organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, and the five U.S. territories. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members to:

- Protect the public interest;
- Promote competitive markets;
- Facilitate the fair and equitable treatment of insurance consumers;
- Promote the reliability, solvency and financial solidity of insurance entities; and
- Support and improve state regulation of insurance.

The NAIC provides a forum for state insurance regulators to work together to protect insurance consumers and supervise the financial solvency and market conduct of entities engaged in the business of insurance. The NAIC operates under a committee structure designed to facilitate the development of regulatory policy, regulatory analysis of emerging issues and interstate coordination of regulatory matters. The NAIC offers its members programs, publications, electronic systems and data, and many services to assist them in achieving their fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner. The professional staff of the Association provide support services in the areas of law, actuarial science, accounting and finance, state, federal and international policy, information technology, solvency regulation, market regulation, research and insurance market economics, among others.

The NAIC State Insurance Regulatory Toolkit

The annual budget of the NAIC reflects the wide-range of valuable services and benefits the NAIC provides to its members and the insurance industry. The operations of the NAIC provide tremendous value to the states by alleviating the significant investment and ongoing costs for each state insurance department to create the regulatory tools and resources as well as technical infrastructure available through the NAIC. These regulatory tools create efficiencies and significant cost savings to insurance regulators and the regulated industry, and most of them would be cost-prohibitive for the states to duplicate on their own.

Without membership in the NAIC, the amount of state funding required in order to provide or access the similar type of services and data the NAIC provides — often at no extra charge — would far exceed what a state pays in member dues to the NAIC. The states, by way of annual membership dues, contribute less than three percent of the revenue the NAIC devotes to funding such member-directed initiatives, as well as many other services that help the states work together collaboratively and cooperatively. **Appendix B** includes information about several of the NAIC's support operations, as well as estimates of the cost to an individual state to duplicate the many services the NAIC provides. Topics include:

- The NAIC Accreditation Program
- Communications and Consumer Outreach
- Education and Training
- Financial and Regulatory Databases
- Government Relations
- Legal Counsel
- Market and Financial Expertise and Analysis
- Research, Statistics and Regulatory Publications
- Securities Valuation

While the scope and costs of such services and systems may vary based on the size of the state's insurance market, in terms of the number of companies, producers, consumers and overall base of premium volume, the following chart estimates the cost savings to large, medium and small premium volume states.

NAIC'S REGULATORY TOOLS PROVIDE *SAVINGS* TO STATES:

Large Premium Volume States (states with 4.25% or more share of national premium volume)	**Medium Premium Volume States** (states with 2% – 4.25% or more share of national premium volume)	**Small Premium Volume States** (states with less than 2% share of national premium volume)
Start-up year estimate savings: **$ 22,102,106**	Start-up year estimate savings: **$ 15,386,912**	Start-up year estimate savings: **$ 9,539,771**
Subsequent annual maintenance: **$ 6,557,716**	Subsequent annual maintenance: **$ 5,560,869**	Subsequent annual maintenance: **$ 5,000,927**
Average NAIC member assessment (2008 budget estimate): **$ 136,554**	Average NAIC member assessment (2008 budget estimate): **$ 56,894**	Average NAIC member assessment (2008 budget estimate): **$ 17,046**

Each year, the NAIC also provides its *Value of Services* report to each of its members, which is a report designed to convey the wide range and estimated value of information, products and services offered to each state, in relation to the state's membership assessment. A copy of the *2008 NAIC Value of Services* report for the State of New Hampshire is included as **Appendix C**.

<u>NAIC Strategic Management</u>

The NAIC continues to focus on the modernization of state insurance regulation in a manner that benefits state insurance regulators, insurance consumers and the insurance industry. State regulators have demonstrated through several national initiatives that they possess the technical expertise, resources, and problem-solving experience to continue to implement national regulatory standards that will achieve the highest levels of marketplace safety and efficiency, while maintaining a competitive marketplace with the strong consumer protections that are the hallmark of state regulation.

Beginning in 2007, the NAIC instituted a critical review of the NAIC's existing regulatory initiatives. The initial review lead to a synthesis of and focus on the strategic issues confronting the NAIC, its members, and the state-based system of insurance regulation. Through a focused strategic management process, the members have focused on key priority issues and initiatives through setting, measuring and achieving meaningful improvements.

The NAIC's radar screen in 2009 has included (1) the transition of the NAIC Washington D.C. Office and the creation of the Center for Insurance Policy and Research, (2) continued review of regulatory models for the future of state insurance regulation, (3) producer licensing reciprocity and uniformity, (4) enhancement of data collection, analysis and collaborative efforts in the area of market regulation, (5) health care reforms, (6) removing any unnecessary impediments to insurers bringing new insurance products to market, and (7) the solvency modernization initiative and enhancements to the current U.S. financial regulatory system, focused in the areas of capital requirements, international accounting, group supervision, valuation issues in insurance, and reinsurance. The NAIC's proposed budget for 2010 anticipates these initiatives, along with the support and maintenance of key existing NAIC products and services to members, to further support the state insurance regulatory model.

The Budget Process

In June of each year, a zero-based budget proposal is developed by each individual NAIC department, ultimately consolidating into ten NAIC Divisions. During this time, each department projects its current year results and begins to build its proposal for the coming year, focusing closely on variances between the current year budget, current year projected results and anticipated needs for the coming year. This process includes a strategic management review and evaluation of all ongoing and evolving projects, products, programs, services, charges and technology initiatives in relation to the strategic priorities and initiatives identified by the membership and tied to the NAIC's mission. The NAIC's senior management team reviews each budget in detail with the respective Division Director to make adjustments according to the strategic and financial needs of the Association.

The 2010 budget includes an important investment in the NAIC membership, specifically additional travel subsidies to support each Commissioner's involvement in NAIC national meetings, grant funds of $13,000 per state in 2010 (consistent with 2009), and additional grant funds to be awarded to state regulators upon application and demonstration of need for travel dollars to participate in NAIC national meetings and/or education and training programs. It also includes $3,000 per state for members to host state legislators at the NAIC 2010 Fall National Meeting. In summary, the 2010 budget includes $2,516,798 in member funding for the following membership initiatives:

- Commissioner Domestic Travel ($116,000)
- Commissioner International Travel ($250,000)
- Commissioners Conference Travel ($124,390)
- Commissioner Washington D.C. Fly-In Events ($112,000)
- EX1/EX Committee Retreats ($36,000)
- E-Regulation Conference Sponsorships ($139,620)
- SBS Summit ($38,425)
- PIO Forum ($56,205)
- VOS Task Force Meeting in New York ($33,400)
- International Education Fund ($1,858)
- NAIC Grant Funds ($728,000)
- Commissioner Travel to NAIC National Meetings ($252,000)
- Needs-Based Grant Funds Available for NAIC National Meetings ($250,000)
- NAIC Zone Funds ($140,000)
- Education and Training Scholarships ($53,000)
- State Legislator Travel ($168,000)
- Academic Symposium on U.S. Insurance Regulation ($17,900)

Following an extensive development and internal review process, the proposed budget is presented in detail to the NAIC Officers, and subsequently the Internal Administration (EX1) Subcommittee and

Executive (EX) Committee for consideration. The proposed budget is presented to the full NAIC membership at its Fall National Meeting and then released for public review and comment. A public hearing is held in early November to receive public comments before final consideration and adoption by the NAIC Executive Committee at the Winter National Meeting.

2009 Projections

Like all businesses in this economy, the NAIC too has experienced certain impacts in its 2009 budget. As concerns with the 2009 projections were identified in late May, NAIC management worked to identify potential areas for enhancing revenues and reducing costs. Working with the Internal Administration (EX1) Subcommittee, the management team implemented proactive measures to address projected revenue shortfalls and implement certain cost reductions in order to generate an estimated $2.0 million reduction in net spending from July to December 2009, while minimizing the impact to NAIC services to members. Key cost reductions implemented by staff in 2009 include (1) a more systematic and high priority-based review of hiring vacant NAIC staff positions and (2) freeze on NAIC salary increases effective July 1, through June 30, 2010.

Based on actual results through June 30, 2009, projections indicate a net operating loss of $176,969 (.25%), compared to a budgeted net operating loss of $474,656 in 2009. When including investment income, the NAIC projects a total net revenue margin of $2.8 million, again driven primarily by positive investment performance through June 30, 2009, and excluding any potential downturn in investment returns from July to December 2009. NAIC management continues to monitor these variances very carefully on a monthly basis in order to ensure appropriate adjustments if necessary to meet or improve 2009 net operating projections.

Additional details of 2009 projected variances are included throughout the detailed footnotes of this budget proposal.

2010 Proposed Budget

The reviews of 2009 projections and 2010 budget proposals were very focused on controlling expense growth from 2009 to 2010, perhaps more focused than in prior years because of the economic impacts experience by the NAIC this year. Constraint in 2010 proposed spending is illustrated mostly by the proposed $580,400 (0.8%) reduction from 2009 budgeted expenses, but also by relatively modest 0.7% proposed growth in 2010 revenues.

The NAIC base budget (before adding fiscal impact proposals) includes total revenues of $73,625,814 and total expenses of $70,822,173, which represent a 0.7% increase and 1.0% decrease, respectively, from the 2009 budget, for $2,803,641 in projected net revenue. Viewed in relation to the 2009 projected totals, the 2010 proposal represents an increase of 2.0% and 2.1% respectively. However, it is important to note 2009 projected revenues include anticipated net investment gains of $1.4 million, a market fluctuation that is not anticipated in the 2010 budget. 2010 base budget expenses are proposed to decrease $743,330 (1.0%) from the 2009 budget, and represent an increase of $1.5 million (2.1%) over 2009 projections. Detailed explanations of 2009 variances and changes in to 2010 are included through the detailed footnotes of this budget proposal.

As noted above, these comparisons represent the NAIC's base budget prior to the addition of revenues and expenses associated with the individual Business and Fiscal Impact Statements, which were reviewed individually by the Internal Administration (EX1) Subcommittee. Such additional revenues and expenses are $22,560 and $162,930, respectively, and produce an overall net expense impact of $140,370. Upon adding these proposals, the NAIC consolidated budget includes total revenues of $73,648,374 and total expenses of $70,985,103, which represent a 0.7% increase and 0.8% decrease, respectively, from the 2009 budget, and a 2.0% and 2.3% increase from 2009 projected revenues and expenses, respectively.

NAIC Operating Reserve
The NAIC's operating reserve policy provides for a targeted ratio reserve of 80% of the next calendar year's expense budget, calculated on a "liquid" reserve basis, which excludes fixed asset balances from net assets. This reserve policy has undergone extensive review and consideration by the NAIC Executive Committee, and was validated by an independent professional services firm with financial expertise with non-profit associations, financial planning and reserving. The reserve is designed to ensure the financial stability of the NAIC, in the event of emerging business risks and uncertainties, and to absorb new priority initiatives pursued by the NAIC membership. As such, the Association's reserve status is of paramount consideration in the budgeting process, along with strong and prudent financial management of the NAIC's assets.

As of December 31, 2008, the NAIC maintained a liquid reserve ratio of 52%, which reduced significantly during 2008 as a result of investment losses and net asset adjustments related to the NAIC defined benefit pension plan. Based upon 2009 projected results, and the 2010 budget proposal prior to Business and Fiscal Impact Statements, the liquid reserve is projected to increase to 57.2% at December 31, 2009 and 60.3% at December 31, 2010. After the addition of the proposed Business and Fiscal Impact Statements, the liquid reserve reduces to 60.1% at December 31, 2010.

Regulatory Modernization and Initiatives Fund
In 2005, the NAIC established a Regulatory Modernization and Initiatives Fund (the Fund) to constrain new budget requests that arise following the adoption and implementation of the annual budget. The Fund is based on 1.5% of the projected net assets, or $808,325 for 2010.

Business and Fiscal Impact Statements
The 2010 budget includes three Business and Fiscal Impact Statements. Each fiscal is prepared to describe the purpose and scope of the proposal, its impact on the NAIC's business, operations and finances, a description of the benefits to key stakeholders and an assessment of risks. Business and Fiscal Impact Statements are proposed for three new policy and business initiatives at the NAIC, including:

1. Market Conduct Annual Statement – This proposal outlines the NAIC's proposal to replace the current Access database filing process with a Web based front-end application for the collection of 2010 data in 2011 by all states. This interface will facilitate the filing of the MCAS data with each state prior to the transmission of data to the NAIC and provide insurance companies a uniform and consistent online interface with all states. Once MCAS data is received, the data will be validated for form and format against minimum loading standards. Each state's data will then be stored in a state-specific database in a view-only format. The data will then be pulled from the state-owned repository to the NAIC for storage. Additional data validations will be run on the data and a filing status notice or resubmission request will be sent to the company on behalf of the state. States will maintain the current functionality and access to the data through the NAIC I-SITE. State regulators would be able to access the data, write their own queries against the data, and pull it into Access. There will also be a limited number of IT resource hours budgeted to develop analytical reports as defined by the states and NAIC staff.

   The draft proposal is recommended by members of the D Committee and includes one FTE request, a proposed NAIC support front-end filing application, and the potential for value-added and voluntary products and services to be offered to the industry beginning in 2011. Such products and services and related pricing would serve to offset the cost of designing, building, maintaining and resourcing the enhanced MCAS system.

2. Application Development and Testing Tools Expansion – This proposal is recommended by our Information Systems Division to expand the HP Quality Center tool, which will be implemented in 2009 as outlined in the respective 2009 fiscal impact proposal, for managing testing and application development. This expansion is expected to further enhance NAIC program code, database and performance testing tools in 2010, for a cost of $18,675 in 2010.

3. Solvency Modernization Webinar – This proposal is for funding to develop and offer a new NAIC education and training course on Solvency Modernization in 2010, as part of the objectives of the Solvency Modernization Initiative (EX) Task Force. This educational briefing for both regulators and interested parties, seeks to provide an overview of the Solvency Modernization movement, as well as describe the European Union Solvency II Framework and illustrate its potential impact on insurance companies. The proposal represents $22,560 in revenues and $2,625 in expenses, for a net margin of $19,935 in 2010.

Details of the above new initiatives are presented in the various “Business and Fiscal Impact Statement” tabs of this budget package.

Conclusion

We appreciate the opportunity to present this 2010 budget proposal to the NAIC membership and the general public, and believe its contents provide a comprehensive and useful review of the NAIC's business and financial operations in the upcoming fiscal year. An additional summary of key components of the 2010 budget proposal is included as **Appendix A**. Please feel free to contact Brady Kelley, Chief Financial and Business Strategy Officer, at (816) 783-8004 or Carol Hartley, NAIC Senior Controller, at (816) 783-8038 should you have any questions or need additional information.

National Association of Insurance Commissioners

2010 Budget Proposal

NAIC
National Association of Insurance Commissioners

NAIC
National Association of Insurance Commissioners

- Highlights
- 2010 Comparison to 2009
- Revenue Increases (Decreases)
- Expense Increases (Decreases)
- Headcount
- Business and Fiscal Impact Statements

NAIC National Association of Insurance Commissioners

Highlights

- **Revenues up 0.7%, or $503,979 over 2009 budget to $73.6 million**
  - Growth Drivers: SERFF, State Based Systems, SVO Filing Fee Increase
  - No Database Filing Fee Schedule Increase – 1% Premium Growth Assumption
  - ASFSP Vendor Royalty Increase of $25
  - National Meeting Registration Fee Increase of $50
  - Note: Investment gains projected for 2009 ($971,837) distorts 2009 projection comparison

NAIC National Association of Insurance Commissioners

Highlights

- **Expenses down 0.8%, or $580,400 from 2009 budget to $71.0 million**
  - Salary Budget Down – 2009 Salary Freeze
  - Employee Benefits up $836,065 – Defined Benefit Plan
  - Professional Services down $501,527 – 2009 Fiscals Completed
  - Occupancy up $367,049 – 2301 McGee Property Tax Assessment
  - Depreciation/Amortization down $1.2 million (26%)
  - National Meetings down $217,528 – Reduction from 4 2009 to 3 2010 National Meetings + Interim Meetings Increase
- **Net Revenue Before Fiscals = $2.8 M ($2.7 M After)**

NAIC
National Association of Insurance Commissioners

Highlights

- **Projected Liquid Operating Reserve Ratio**
  - 57.2% at 12/31/09
  - 60.3% at 12/31/10 (Before Fiscals)
  - 60.1% Afterwards…
  - Still somewhat volatile given performance of the financial markets, both in the NAIC long-term investment portfolio and its Defined Benefit Plan portfolio
- **Business & Fiscal Impact Statements**
  - 3 Proposals – Net expense impact of $140,370
  - 1 New FTE Request for Market Conduct Annual Statement Project

NAIC
National Association of Insurance Commissioners

2010 Budget vs. 2009 Budget

(Including 2010 Fiscals)

		2010B	2009B	Increase (Decrease)	% Change
Revenues:					
	Operations	$ 72,214,986	$ 71,090,847	$ 1,124,139	1.6%
	Investments	1,433,388	2,053,548	(620,160)	30.2%
	Subtotal	73,648,374	73,144,395	503,979	0.7%
Expenses:					
	Operations	70,985,103	71,565,503	(580,400)	-0.8%
	Net Revenue	$ 2,663,271	$ 1,578,892	$ 1,084,379	

NAIC
National Association of Insurance Commissioners

Revenue Increases (Decreases)

(2010 Budget vs. 2009 Budget)

Increase from 2009 Budget	**$**	**503,979**
Database Fees (Based on Assumed 1% Industry Premium Growth)		186,692
Insurance Data Product Sales		(149,528)
ASFSP Vendor Royalties		125,000
SVO Filing Fees		533,725
SERFF Filing Fees		105,849
SBS Transaction Fees		730,674
Automated Valuation Services		143,456
National Meeting Registration Fees		(339,774)
Investment Income		(620,160)
SPLR Usage Fees from NIPR		494,650
License Fees from NIPR		(755,980)
Other		49,375
Increase from 2009 Budget	**$**	**503,979**

NAIC
National Association of Insurance Commissioners

Expense Increases (Decreases)

(2010 Budget vs. 2009 Budget)

Decrease from 2009 Budget	**$**	**(580,400)**
Salaries/Compensation		284,623
Employee Benefits (Defined Benefit and Health Plans)		836,065
Professional Services		(776,327)
Outside Legal Counsel		120,000
SBS Royalties		154,800
Staff Travel		(171,805)
Commissioner National Meeting Travel		(48,000)
Other Member Travel		139,845
International Travel		81,890
Occupancy - 2301 McGee Property Taxes		367,049
Depreciation/Amortization on Capital Assets		(1,218,208)
National and Interim Meetings		(194,589)
Interim Meetings		22,939
Education and Training		(49,780)
Office Services (Supplies, Mail, Printing)		(187,490)
Other		58,588
Decrease from 2009 Budget	**$**	**(580,400)**

NAIC National Association of Insurance Commissioners

2010 Budget vs. 2009 Projection

(Including 2010 Fiscals)

		2010B	2009P	Increase (Decrease)	% Change
Revenues:					
	Operations	$ 72,214,986	$ 69,186,198	$ 3,028,788	4.4%
	Investments	1,433,388	3,025,385	(1,591,997)	52.6%
	Subtotal	73,648,374	72,211,583	1,436,791	2.0%
Expenses:					
	Operations	70,985,103	69,363,167	1,621,936	2.3%
	Net Revenue	$ 2,663,271	$ 2,848,416	$ (185,145)	

NAIC National Association of Insurance Commissioners

Revenue Increases (Decreases)

(2010 Budget vs. 2009 Projected)

Increase from 2009 Projected	**$ 1,436,791**
Database Fees (Based on Assumed 1% Industry Premium Growth)	249,739
Insurance Data Product Sales	456,349
ASFSP Vendor Royalties	125,000
SVO Filing Fees	1,155,773
SBS Transaction Fees	709,427
National Meeting Registration Fees	(92,375)
Investment Income	(1,591,997)
Education and Training Program Revenues	43,768
SPLR Usage Fees from NIPR	442,260
License Fees from NIPR	(62,545)
Other	1,392
Increase from 2009 Projected	**$ 1,436,791**

NAIC
National Association of Insurance Commissioners

Expense Increases (Decreases)

(2010 Budget vs. 2009 Projected)

Increase from 2009 Projected	**$**	**1,621,936**
Salaries/Compensation/Payroll Taxes		2,049,347
Employee Benefits (Defined Benefit and Health Plans)		610,335
Professional Services		(965,358)
SBS Royalties		212,490
Staff Travel		(29,015)
Sales/Marketing Travel		35,244
Commissioner National Meeting Travel		(48,000)
Other Member Travel		138,570
International Travel		114,454
Depreciation/Amortization on Capital Assets		(1,116,748)
National and Interim Meetings		(376,494)
Education and Training (Financial Summit)		52,568
State and General Training (Including NAIC Grant Funds)		187,491
Other Expenses (Bad Debt Recovery Assumptions)		510,408
Other		246,644
Increase from 2009 Projected	**$**	**1,621,936**

NAIC
National Association of Insurance Commissioners

2010 Revenue Composition

(millions)

	Revenue Amounts	% Comp.
Database Filing Fees	$ 25.8	35.0%
Publications/InsData	18.4	25.0%
Services (SERFF, OPTins, SBS, SVO, IID)	15.7	21.3%
Administrative Services/License Fees	7.5	10.2%
State Assessments	2.2	3.0%
National Meetings	1.7	2.3%
Investment Income	1.4	1.9%
Education & Training/Other	0.9	1.2%
	$ 73.6	100.00%

2010 Expense Composition

(millions)

	Expense Amounts	*% Comp.*
Salaries, Taxes and Benefits	$ 45.3	63.7%
Lease and Office Equipment	8.1	11.4%
Professional Services	5.3	7.5%
Depreciation and Amortization	3.5	4.9%
Administrative and Operational	3.2	4.5%
Travel	3.0	4.2%
National Meetings	1.2	1.7%
Zone/Grant Funds	1.0	1.4%
Education & Training	0.5	0.7%
	$ 71.0	100.00%

Prior Year Margin Comparisons

(Including Fiscals)

Year	Revenues	Expenses	Total Margin	Operating Margin
2010	73,648,374	70,985,103	2,663,271	1,229,883
2009	73,144,396	71,565,501	1,578,895	(474,653)
2008	68,310,077	66,496,601	1,813,476	(207,906)
2007	64,999,252	64,794,735	204,517	(1,242,509)
2006	59,339,190	59,045,281	293,909	(726,041)
2005	59,231,565	56,315,622	2,915,943	2,123,225

NAIC
National Association of Insurance Commissioners

Department Headcount

(Authorized FTEs = 434.5)

Education and Training 9.5	Market Regulation 13.5	Research 14
State Based Systems 29	Executive Office (Including CIPR) 23	SERFF 20
Securities Valuation Office 46.5	Insurance Products and Services 28.5	Financial Data Repository 31
Corporate (Legal, HR, Finance, Member Services) 77	Financial Regulatory Services 42.5	Information Technology 100

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NAIC
National Association of Insurance Commissioners

FTE Additions (2004–2010)

Proposed

Year	Total	IAIS	SBS	SERFF	Producer System	Market Regulation	SVO	IT	Government Relations
2010	1					1			
2009	7	1			1				5
2008	3	1				2			
2007	18		8	3	5			2	
2006	5					2	2	1	
2005	10		7	3					
2004	5		1	2		1		1	

The additional headcount above only reflects part of the picture regarding the use of NAIC human resources. NAIC management employs an on-going assessment process of staffing needs and will reallocate vacated positions to help ensure adequate and quality support for NAIC priorities and its mission.

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NAIC
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	2010 Proposed Fiscal Impact Statements	2010 Net Impact
1	Market Conduct Annual Statement	$ (141,630)
2	Application Development and Testing Tools Expansion	(18,675)
3	Solvency Modernization Webinar	19,935
	Net Impact	$ (140,370)

NAIC
National Association *of* Insurance Commissioners

State Insurance Regulatory Toolkit

INTRODUCTION

The NAIC provides a variety of tools for states to help regulate insurance and assist consumers. This toolkit shows the NAIC's investment in the development of, and ongoing maintenance for, many of these components. We have also estimated the costs a state might incur to build or procure these components.

The scope of the costs might vary based on the size of the state's insurance market, in terms of the number of companies, producers, consumers and overall base of premium volume. A basic assumption is that the larger the state, the greater the functionality and infrastructure needs. Reference to small, medium and large is based on a similar approach as used by the Interstate Insurance Product Regulation Commission (IIPRC) where the six largest states in terms of premium volume are considered large, remaining states with premium volume between 2% – 4.45% are considered medium and states with premium volume less than 2% are considered small. The NAIC State Assessment Budget Exhibit was used for purposes of breakdown of states within these categories (see attached).

PROFESSIONAL SERVICES

Without the NAIC, states would likely need to obtain additional human resources whether through staffing or consulting to provide the type and range of professional services obtained through membership in the NAIC including:

- Lawyers
- Actuaries
- Economists
- Accountants
- Federal/international liaisons
- Reinsurance specialists
- Research analysts
- Financial examiners and analysts

Due to variability of requirements and market factors for each state, these costs *ARE NOT* factored in to the following breakdown.

NAIC'S REGULATORY TOOLS PROVIDE *SAVINGS* TO STATES:

Large Premium Volume States (states with 4.25% or more share of national premium volume)	Medium Premium Volume States (states with 2% – 4.25% or more share of national premium volume)	Small Premium Volume States (states with less than 2% share of national premium volume)
Start-up year estimate savings: **$ 22,102,106**	Start-up year estimate savings: **$ 15,386,912**	Start-up year estimate savings: **$ 9,539,771**
Subsequent annual maintenance: **$ 6,557,716**	Subsequent annual maintenance: **$ 5,560,869**	Subsequent annual maintenance: **$ 5,000,927**
Average NAIC member assessment (2008 budget estimate): **$ 136,554**	Average NAIC member assessment (2008 budget estimate): **$ 56,894**	Average NAIC member assessment (2008 budget estimate): **$ 17,046**

COMMUNICATIONS AND CONSUMER OUTREACH

While most state departments have communications or public relations contacts, few are able devote time solely to communication issues regarding insurance regulation. States have few resources to devote to the development and implementation of comprehensive consumer outreach programs. The NAIC Communications Division provides these services in addition to research, writing and media expertise – to support and assist state public information officers. THESE NAIC SERVICES ARE PROVIDED AT NO ADDITIONAL COST TO THE STATES.

Core Professional Services Provided by Communications Staff – Consumer alerts, media relations, speeches and talking points, daily media tracking and clips services	**$ 267,525**
PIO Forum – Annual professional development for state communications staff	(per attendee cost) **$2,500**
Suptotal for Communications-Only Activities:	**$270,025**
Professional Services Applied to Consumer Outreach (Insure U: Get Smart about Insurance) – Account management, national media placement efforts, enhancements to Web site content, development and administration of consumer research, and media event planning	**$289,400**
Program Component Costs – National distribution of announcements and releases, research, launch events, publications and public service announcement (TV)	**$175,025**
Hispanic Program Component Costs – Production, distribution and media relations for Spanish-language press releases and education materials,	**$45,575**
Subtotal for Consumer Outreach Campaign only:	**$510,000**
COMBINED VALUE FOR NAIC COMMUNICATIONS AND CONSUMER OUTREACH:	**$780,025**

Pricing considers measurements of labor required to execute each function and market prices for same services if provided by a professional vendor.

EDUCATION AND TRAINING

NAIC Education and Training Department provides more than 68 courses, both classroom and onl ine courses, on a variety of insurance topics, with 18 programs specifically for insurance regulators. The NAIC also provides on-site training at members' departments on a variety of NAIC handbooks, tools and electronic applications.

Each state averages the use of 25 continuing education, professional development courses through the NAIC annually. The NAIC charges $495 per class (or approximately $12,375). The price for these classes if provided externally is estimated at $2,700 each (or $67,500 per state annually).

$ 55,125
Each state's estimated savings for education and training currently provided by the NAIC

MEETINGS AND EVENTS

The NAIC provides several venues and opportunities for members to come together to discuss common issues, formulate collaborative strategies and policies, and to cooperatively modernize and streamline insurance regulation. The NAIC holds quarterly national meetings and interim meetings with no registration fees for members. The NAIC also provides zone grant funds to minimize travel costs associated with member participation.

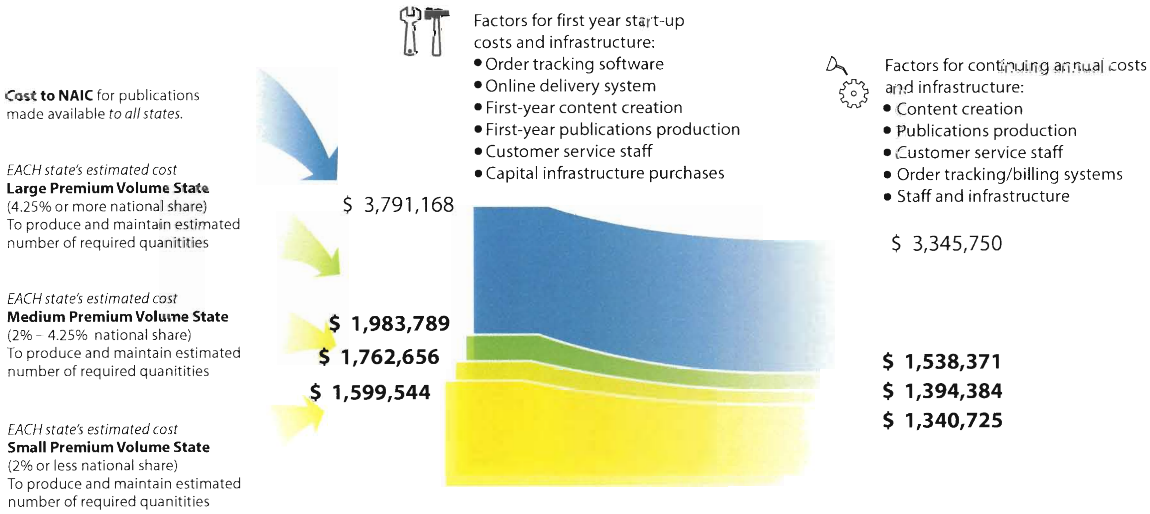
Estimate includes each state's share with factors for zone grants and funds, professional travel services, scholarship awards and meeting coordination and management. All currently provided by the NAIC.

$ 50,985
Each state's estimated savings for meetings related services now provided by the NAIC

INSURANCE PRODUCTS AND SERVICES

The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of state insurance regulators by providing detailed and comprehensive insurance information through more than 150 different publications and data products — from statistical reports and white papers to regulatory handbooks and consumer guides — available to regulators free-of-charge.

COSTS FOR PUBLICATIONS CURRENTLY PRODUCED AND MAINTAINED BY NAIC



Cost scope varies by size of the state's insurance market (number of companies, producers, consumers and overall base of premium volume). It is assumed that large premium volume states (4.25% share of nationwide premium volume or more) would need to maintain approximately 8% of the product volume maintained by the NAIC.

It is assumed that medium premium value states (2% – 4.25% share of nationwide premium volume) would require less product volume (about 2% of that maintained by the NAIC) and infrastructure.

The assumption for small states (2% or less of premium volume) would produce and maintain volumes equaling about 1% of the volumes maintained by the NAIC.

ACCREDITATION PROGRAM

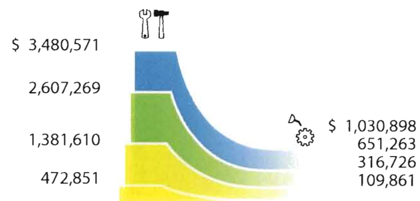
The NAIC Accreditation Program generates savings to the states and the industry, through regulatory reliance placed on accredited states. Without this program of regulatory deference, a number of financial solvency regulatory processes and costs would expand exponentially as states might not rely on each other to regulate licensed companies domiciled in other states. This program has been immensely effective in reducing the duplication of financial regulatory processes by setting the baseline expectation of all states in terms of the baseline financial solvency regulatory processes in place at each state that earns NAIC accreditation. Forty-nine states and the District of Columbia are currently accredited.

Estimated annual savings to EACH state for full accreditation and pre-accreditation review (both occur each five years - cost annualized for illustration) and does not consider all staff and professional service requirements.	**$ 14,000**

COMPREHENSIVE INFORMATION TECHNOLOGY SYSTEMS

Currently produced and maintained through the NAIC

System for Electronic Rate and Form Filing (SERFF)



Rate and form submittal system

Web-based, central access for states, D.C. and Puerto Rico

Used by 3,000 companies to seek approval of 270,000 filings in 2006

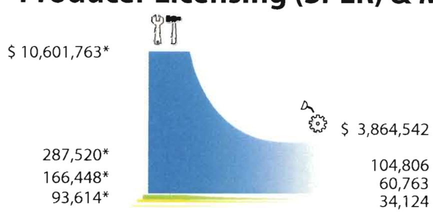
Securities Valuation Office (SVO)

Quality assessment and pricing of insurers' securities

Insurers' investment portfolio analysis

Requires highly trained financial analysis professionals, high levels of data access and comprehensive tools

Producer Licensing (SPLR) & Market Reg Systems



* Requires cooperative development of single system. Costs reflect *each* state's estimated share.

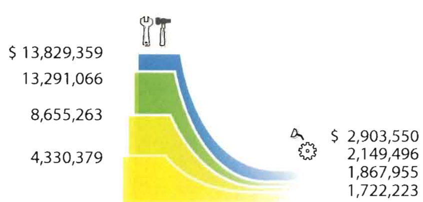
Market regulation through insurer and producer licensing

Single-point Web-based access for all states

Resident/non-resident application, renewal, appointment termination, address or status changes, etc.

Complaints & Regulatory action

Financial Data Repository (FDR)



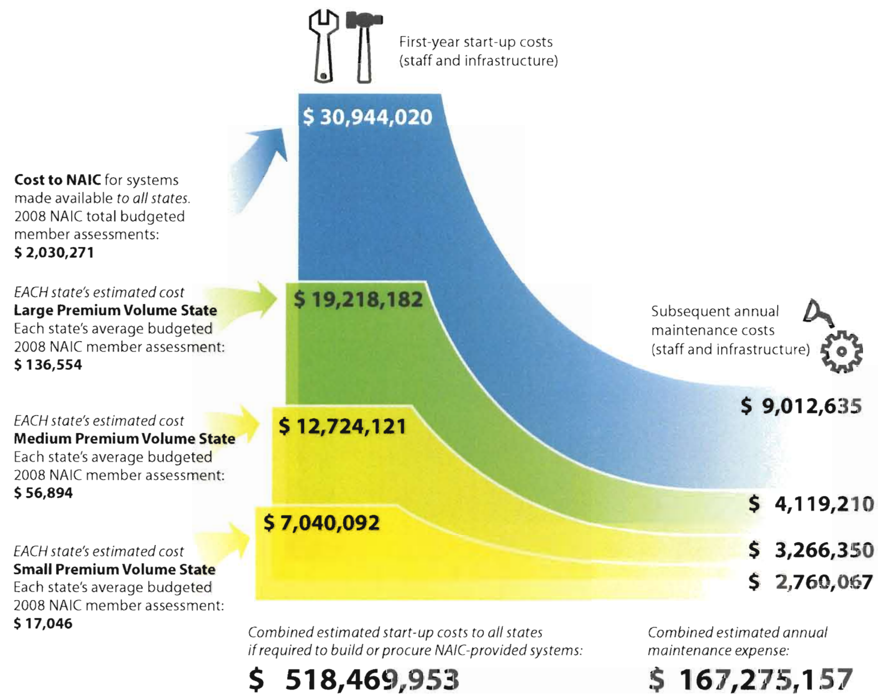
Statutory financial statement data is available to regulators within 24 hours of receipt

Standardized through accounting manual, statement blanks and instructions

Receives, stores and validates a minimum of 45,000 annual statement data elements per insurer

Built-in analysis tools, reports and ad hoc querying support solvency regulation

Total start-up and maintenance cost for systems currently employed by NAIC to support state regulatory functions *compared to* costs to EACH STATE for comparable independent systems



Cost scope varies by size of the state's insurance market (i.e. number of companies, producers, consumers and overall base of premium volume). It is assumed that large premium volume states (4.25% share of nationwide premium volume or more) would require the same functionality and continuity currently employed by the NAIC, with slightly less robust infrastructure.

It is assumed that medium premium value states (2% – 4.25% share of nationwide premium volume) would require somewhat less functionality and infrastructure support.

The assumption for small states (2% or less of premium volume) would choose much smaller scale systems than currently provided by the NAIC.

	MEMBER STATE OR TERRITORY	STATE PREMIUM VOLUME (2007)	PERCENT SHARE OF NATIONAL PREMIUM VOLUME	2009 BUDGETED MEMBER ASSESSMENT
LARGE PREMIUM VOLUME STATES	New York	$ 139,642,268,093	9.02%	187,608
	California	130,490,517,347	8.43%	175,313
	Florida	110,156,144,304	7.11%	147,993
	Texas	97,779,542,714	6.31%	131,365
	Pennsylvania	78,470,594,078	5.07%	105,424
MEDIUM PREMIUM VOLUME STATES	Illinois	60,895,878,690	3.93%	81,814
	New Jersey	59,821,158,481	3.86%	80,370
	Ohio	54,639,650,976	3.53%	73,407
	Michigan	51,778,455,318	3.34%	69,564
	Massachusetts	42,960,738,511	2.77%	57,716
	Georgia	39,370,520,462	2.54%	52,893
	North Carolina	37,628,637,250	2.43%	50,554
	Virginia	36,552,703,938	2.36%	49,108
	Connecticut	33,781,896,527	2.18%	45,386
SMALL PREMIUM VOLUME STATES	Maryland	30,762,684,250	1.99%	41,330
	Wisconsin	30,402,197,363	1.96%	40,845
	Washington	29,985,860,057	1.94%	40,286
	Minnesota	29,860,072,070	1.93%	40,117
	Indiana	28,466,122,263	1.84%	38,245
	Missouri	28,047,273,755	1.81%	37,681
	Colorado	27,183,706,255	1.76%	36,522
	Delaware	26,318,439,222	1.70%	35,359
	Arizona	26,208,824,044	1.69%	35,211
	Tennessee	25,993,638,948	1.68%	34,922
	Iowa	23,289,888,750	1.50%	31,291
	Louisiana	21,667,974,267	1.40%	29,110
	Kansas	20,785,577,769	1.34%	27,926
	Alabama	19,226,717,575	1.24%	25,831
	Oregon	18,850,707,570	1.22%	25,325
	South Carolina	17,359,904,388	1.12%	23,323
	Kentucky	16,285,030,285	1.05%	21,879
	Oklahoma	13,716,099,948	0.89%	18,427
	Nevada	11,646,849,093	0.75%	15,647
	Utah	10,703,108,095	0.69%	14,380
	Arkansas	9,877,878,297	0.64%	13,271
	Mississippi	9,852,052,534	0.64%	13,236
	Nebraska	9,594,919,911	0.62%	12,890
	Puerto Rico	9,389,344,787	0.61%	12,614
	District of Columbia	8,509,705,121	0.55%	11,432
	Hawaii	8,323,011,391	0.54%	11,182
	New Mexico	7,998,169,118	0.52%	10,745
	Rhode Island	7,915,288,095	0.51%	10,635
	West Virginia	7,482,059,649	0.48%	10,052
	New Hampshire	6,903,948,918	0.45%	9,276
	Idaho	5,998,917,956	0.39%	8,059
	Maine	5,667,777,643	0.37%	7,725
	South Dakota	4,143,867,092	0.27%	7,725
	Montana	3,769,750,303	0.24%	7,725
	North Dakota	3,663,888,023	0.24%	7,725
	Alaska	3,090,470,798	0.20%	7,725
	Vermont	3,037,213,388	0.20%	7,725
	Wyoming	2,245,016,984	0.15%	7,725
	U.S. Virgin Islands	298,456,199	0.02%	7,725
	Guam	265,148,875	0.02%	7,725
	Northern Mariana Islands	19,308,670	0.00%	7,725
	American Samoa	3,643,788	0.00%	7,725

NAIC
National Association of Insurance Commissioners

2008 VALUE OF NAIC SERVICES

NH New Hampshire Insurance Department

National Association of Insurance Commissioners

February 15, 2009

Dear NAIC Member:

I am pleased to provide you with your state's *2008 NAIC Value of Services* report. This report can be a valuable resource for you and your staff, as well as your respective legislators, Governors, domestic industry and consumers, to convey the value of your NAIC membership to your state insurance department.

It illustrates the wide array of funding, information, products and services provided to your state by the NAIC and an estimate of state funding that would otherwise be required in order to access the type of services provided, often at no extra charge to members, as a benefit of NAIC membership.

Any way you look at it, your membership in the NAIC yields a significant return on investment. For instance, in 2008, the NAIC provided a minimum of $21,665 in travel funding assistance to each member to defray expenses associated with participation in the Commissioners Conference, E-Regulation Conference, Financial Summit, PIO Forum and other NAIC and zone meetings, as well as funding for your state legislators to attend the NAIC 2008 Fall National Meeting. For 26 members, this travel assistance alone exceeded the annual membership assessment.

I urge you to take advantage of all the benefits the NAIC has to offer members – from leveraging NAIC Public Service Announcements, consumer alerts, and the Insure U program for outreaching and educating your consumers, to using the NAIC's state-of-the art regulatory databases, applications and systems to monitor the financial solvency and market conduct of insurers doing business in your state.

It is you, the NAIC membership, that bring significant value to this association through your dedicated, collective and collaborative efforts to protect consumers and ensure a healthy, competitive marketplace through effective state-based regulation. You have my commitment we will continually strive to assist you in carrying out this important mission.

Thank you for the value you bring to the NAIC through your state's membership.

Sincerely,

Therese M. Vaughan, Ph.D.
CEO Designate

For questions regarding this report, please contact:

Brady Kelley
2301 McGee Street, Suite 800
Kansas City, MO 64108
Phone: (816) 783-8004
Email: *bkelley@naic.org*

National Association of Insurance Commissioners

Membership Services at a Glance

Below is a representative list of the services the NAIC provided to or facilitated for its members in 2008

FIGHT FAKE INSURANCE
STOP. CALL. CONFIRM.

Meetings Forum

- **4** National Meetings each year
- **76** Interim Meetings
- **1,247** Toll-Free Conference Calls

Consumer Awareness

- Fight Fake Insurance Campaign
- Insure U — Get Smart about Insurance Program...In Spanish too!
- Consumer Information Source
- Consumer Funded Representative Program
- Public Service Announcements
- Public Information Officer's Forum

Steamlined Processes

- **554,261** filings through the System for Electronic Rate & Form Filing
- **4.4 million** producer licensing records in State Producer Licensing Database
- **3,422** online fraud referrals to members
- **182** Uniform Certificate of Authority Applications transmitted to members
- **163** state premium tax filings through OPT*ins*
- **48** online multistate exams hosted

Information Resources

- **5 million** visits to the naic.org website
- **6.3 million** visits to NAIC's regulator-only I-SITE website
- **4,800** individual annual financial statement filings
- **400** million data elements in Financial Data Repository
- **150** NAIC publications and data products
- **85** financial and market regulatory databases and applications
- **65** online or classroom NAIC Education Courses
- **12,000** statutory accounting and financial reporting inquiries handled
- **79,500** regulator and non-regulator calls/e-mails handled by the NAIC's help desk

SERFF 10th Anniversary
Setting the Standard... 1998-2008

Service Provider

- Full and Interim Accreditation Reviews
- Quarterly Listing of Foreign Insurers
- Valuation of Insurers' Securities Portfolio
- Professional Designation Program
- Amicus briefs
- Federal legislative/regulatory liasion
- International technical assistance
- Daily insurance news services
- NAIC Committee Proceedings back to 1871

VALUE OF NAIC SERVICES

The annual budget of the NAIC reflects the wide-range of valuable services and benefits the NAIC provides to its members. One measure of this value is to apportion each state's share of the NAIC budget, measured in terms of a state's percentage share of nationwide total direct written premium as filed with the NAIC. Through its programs, services, products and funding assistance, the NAIC is an important partner to its members, collectively and individually, to strengthen, modernize and promote state insurance regulation as well as to educate and inform, and perhaps most importantly, to protect insurance consumer interests.

STRENGTHEN STATE INSURANCE REGULATION

The NAIC serves members through facilitating committee-driven model laws and regulations, reporting standards and guidelines, best-practices handbooks, and coordinated regulatory responses in countless areas of insurance regulation. In 2008, the NAIC provided support to members to quickly mobilize to ensure policyholders of insurance companies, adversely affected by the financial crisis, remained protected. The NAIC also provides electronic systems, applications, reports and technical resources and programs to continually strengthen the financial solvency monitoring and market conduct oversight used by state insurance regulators in fulfilling their duties.

MODERNIZE STATE INSURANCE REGULATION

The NAIC has assisted in automating, standardizing, and streamlining many regulatory processes through online systems that transmit information between the industry and state insurance regulators. In 2008, the NAIC received a record number of filings through SERFF and launched OPT*ins*, an online premium tax filing solution, to help members electronically collect premium tax filings and revenue. The NAIC also compiles financial, licensing and other regulatory information from insurance companies, producers and state insurance departments using an extensive collection, quality assurance, and validation process. The NAIC also provides analytical and reporting tools to assist regulators in keeping abreast of the financial and market conditions of their regulated entities.

PROTECT INSURANCE CONSUMER INTERESTS

The NAIC provides members with consumer education resources, including outreach campaigns, public service announcements and media toolkits, to inform consumers on important insurance issues. In 2008, the NAIC created Public Service Announcements for long-term care and disaster preparedness for members to customize in their states, and four new life situations were added to the Insure U consumer media campaign. The NAIC's website and Consumer Information Source also serve as important tools for consumers to view financial and complaint information on insurers and to file complaints of fraud with a state insurance department. The participation of consumer advocates in the NAIC committee process also helps members to receive the consumer's perspective on a wide range of issues. The NAIC coordinates the activities of its members in responding to consumer issues of a widespread nature such as those involving natural disasters.

NAIC National Association of Insurance Commissioners **2008 VALUE OF NAIC SERVICES**

VALUE OF NAIC SERVICES

EDUCATE AND INFORM STATE INSURANCE REGULATORS

The NAIC serves it members by providing a forum for education and the exchange of information. The NAIC Education Department provides 65 courses, including online courses, on a variety of insurance topics with 18 programs specifically designed for insurance regulators. In 2008, the NAIC implemented a Management and Leadership Effectiveness course, specifically designed for regulatory professionals, providing strategies to lead teams in achieving regulatory objectives. The NAIC also provides on-site training on a variety of NAIC handbooks, tools and electronic applications. The NAIC's Insurance Regulator Professional Designation Program provides a structured professional development program to enhance and ensure regulators' skills, techniques, and strategies for monitoring the insurance marketplace. The NAIC also provides several venues and opportunities for members to come together to discuss common issues, formulate collaborative strategies and policies and to cooperatively modernize and streamline insurance regulation. In 2008, the NAIC held four national meetings, a Commissioners Conference, two Executive Committee retreats, the E-Regulation Conference, a Financial Summit, and over 75 interim meetings with no registration fee for members. The NAIC also provides various sources of funds to minimize the travel costs associated with members' participation in these collaborative efforts.

PROMOTE STATE INSURANCE REGULATION

The NAIC serves members by promoting the strengths, benefits and preservation of the state-based system of insurance regulation. In addition to the consumer outreach insurance campaigns and NAIC website, the NAIC assists members to inform policymakers at the state, federal and international levels, promoting state insurance regulators as best positioned to respond quickly and effectively to the needs of their consumers. In 2008, the NAIC provided funding for state legislators to attend the NAIC's Fall National Meeting as a means of facilitating coordination and collaboration among regulators and legislators on key public policy issues. The NAIC also actively addresses federal efforts to pre-empt state regulation of insurance, and in 2008, provided testimony and expertise to Congress with regard to flood insurance reform, the Terrorism Risk Insurance Act, surplus lines reform, natural catastrophe programs, Holocaust claims-handling, bond insurance, travel life legislation, long-term care, Medicare, and ERISA proposals. The NAIC also plays an important role in facilitating communications among the states and federal officials and takes an active leadership role on international regulatory issues, including trade issues and country-specific technical assistance.

NAIC STATE INSURANCE REGULATORY TOOLKIT

In addition to the value of NAIC services as a percentage share of the NAIC budget, this report illustrates the NAIC's investment in the development, and ongoing maintenance, of the NAIC's State Insurance Regulatory Toolkit. This toolkit leverages the NAIC's investment in a variety of tools, to estimate and demonstrate the costs a state might incur to duplicate, build or procure the tools provided by the NAIC, most at no direct cost to the state.

NAIC
National Association of Insurance Commissioners

2008 VALUE OF NAIC SERVICES

NH | New Hampshire Insurance Department

SUMMARY OF PAYMENTS, SERVICES AND SAVINGS

Payments to NAIC		
New Hampshire State Assessment	$	8,594
Database Fees from New Hampshire Domiciled Companies		104,039
Total Payments Received	$	112,633

NAIC Membership Services Received by New Hampshire		
Strengthen State Insurance Regulation	$	77,843
Modernize State Insurance Regulation		45,643
Protect Insurance Consumer Interests		19,818
Educate and Inform State Insurance Regulators		36,766
Promote State Insurance Regulation		27,820
Special Projects for Your State		69,317
Total Value Received	$	277,207

State Regulatory Toolkit (Cost Savings for Small Premium Volume State)		
Start-up Year Estimated Savings	$	9,539,771
Subsequent Annual Maintenance	$	5,000,927

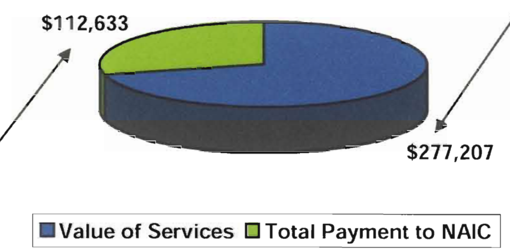
THIS IS NOT A BILL.

2008 VALUE OF NAIC SERVICES

NAIC National Association of Insurance Commissioners

NH | New Hampshire Insurance Department

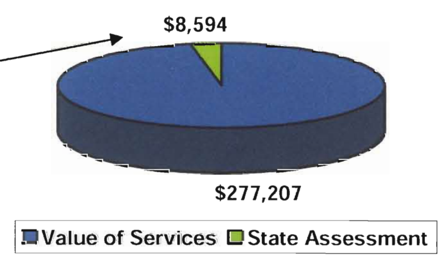
Total Payments Compared to Value Received



Payments to the NAIC from New Hampshire and New Hampshire domiciled insurance companies account for 41% of the total value of services received from the NAIC.

The Value of Services is measured by the state's percentage share of nationwide direct written premium (2007 premiums collected by domiciled companies as filed in 2008), multiplied by the amount of the NAIC's budget that directly supports membership products, services and initiatives.

State Assessment Compared to Value Received

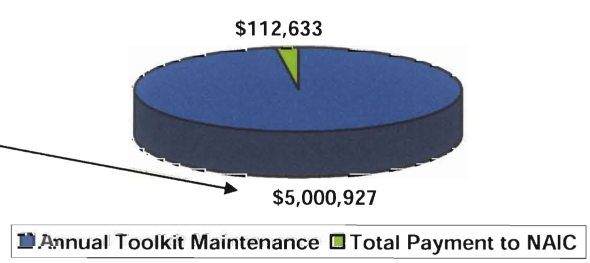


New Hampshire's state assessment accounted for 3% of the total value of services received from the NAIC.

New Hampshire's percentage share of nationwide direct written premiums for domiciled companies was .32% based on NAIC 2007 premium data.

Total Payments Compared to Annual Maintenance for NAIC Toolkit

The value of the NAIC's toolkit and annual maintenance illustrates the NAIC's investment in the ongoing maintenance of the NAIC's State Insurance Regulatory Toolkit, as described within this report.



NAIC National Association of Insurance Commissioners

2008 VALUE OF NAIC SERVICES

NH | New Hampshire Insurance Department

VALUE OF MEMBERSHIP

SPECIFIC PROJECTS AND SERVICES FOR NEW HAMPSHIRE

Travel Funding Provided to State $21,665

Value of NAIC Publications Provided $47,652

State-Specific Activities**

- State-Based Systems .... Yes
- Referrals from NAIC website to DOI website 17,405
- Help Desk Inquiries 477
- I-SITE Inquiries 84,673
- Research Library Requests 3
- Legal Research and Services .... 20 Hours
- Education Program Participants 15
- Designation Program Participants 2
- Accreditation Review .... Full
- State Training .... I-SITE

***For purposes of this Report, no separate value is associated with these Other State-Specific Activities.*

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2010 BUDGET
REVENUE AND EXPENSE SUMMARY

Description	2008 Actual	2009: 12/31/2009 Projected	2009: 2009 Budget	2009: 2009 Projected Variance	2010: 2010 Budget	2010: Increase (Decrease) from 2009 Budget	2010: %	2010: Increase (Decrease) from 2009 Projected	2010: %
Operational Revenues	$ 68,584,909	$ 69,186,198	$ 71,090,847	$ (1,904,649)	**$ 72,192,426**	$ 1,101,579	1.55%	$ 3,006,228	4.35%
Operational Expenses	66,872,117	69,167,142	71,332,153	(2,165,011)	**70,626,063**	(706,090)	(0.99%)	1,458,921	2.11%
Operational Revenues Over/(Under) Expenses	1,712,792	19,056	(241,306)	260,362	**1,566,363**	1,807,669		1,547,307	
Investment Revenue	(6,287,183)	3,025,385	2,053,548	971,837	**1,433,388**	(620,160)	(30.20%)	(1,591,997)	(52.62%)
Investment Expenses	207,539	196,025	233,350	(37,325)	**196,110**	(37,240)	(15.96%)	85	0.04%
Investment Revenues Over/(Under) Expenses	(6,494,722)	2,829,360	1,820,198	1,009,162	**1,237,278**	(582,920)		(1,592,082)	
Total Revenues before Business and Fiscal Impact Statements	62,297,726	72,211,583	73,144,395	(932,812)	**73,625,814**	481,419	0.66%	1,414,231	1.96%
Total Expenses before Business and Fiscal Impact Statements	67,079,656	69,363,167	71,565,503	(2,202,336)	**70,822,173**	(743,330)	(1.04%)	1,459,006	2.10%
Total Revenues Over/(Under) Expenses before Business and Fiscal Impact Statements	(4,781,930)	2,848,416	1,578,892	1,269,524	**2,803,641**	1,224,749		(44,775)	
Business and Fiscal Impact Statement Revenues					**22,560**				
Business and Fiscal Impact Statement Expenses					**162,930**				
Business and Fiscal Impact Statement Revenues Over/(Under) Expenses					**(140,370)**				
Total Proposed Revenues after Business and Fiscal Impact Statements	62,297,726	72,211,583	73,144,395	(932,812)	**73,648,374**	503,979	0.69%	1,436,791	1.99%
Total Proposed Expenses after Business and Fiscal Impact Statements	67,079,656	69,363,167	71,565,503	(2,202,336)	**70,985,103**	(580,400)	(0.81%)	1,621,936	2.34%
Total Proposed Revenues Over/(Under) Expenses after Business and Fiscal Impact Statements	$ (4,781,930)	$ 2,848,416	$ 1,578,892	$ 1,269,524	**$ 2,663,271**	$ 1,084,379		$ (185,145)	

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2010 BUDGET
DETAIL REVENUES AND EXPENSES

Description	Reference	2008 Actual	2009: 6/30/2009 Actual	2009: 12/31/2009 Projected	2009: 2009 Budget	2009: 2009 Projected Variance	2010: 2010 Budget	2010: Increase (Decrease) from 2009 Budget	2010: %	2010: Increase (Decrease) from 2009 Projected	2010: %
State Assessments	R1	$ 2,063,935	$ 1,048,679	$ 2,113,949	$ 2,113,949		$ **2,162,611**	$ 48,662	2.30%	$ 48,662	2.30%
Database Fees	R2	25,389,680	25,540,216	25,540,216	25,603,263	$ (63,047)	**25,789,955**	186,692	0.73%	249,739	0.98%
Publications and Insurance Data Products	R3	17,073,141	6,752,539	17,872,106	18,262,157	(390,051)	**18,408,194**	146,037	0.80%	536,088	3.00%
Services	R4	14,315,068	7,051,893	13,867,406	14,347,775	(480,369)	**15,739,659**	1,391,884	9.70%	1,872,253	13.50%
National Meeting Registration Fees	R5	1,958,600	854,650	1,748,275	2,049,674	(301,399)	**1,655,900**	(393,774)	(19.21%)	(92,375)	(5.28%)
Investment Income	R6	(6,287,183)	2,139,860	3,025,385	2,053,548	971,837	**1,433,388**	(620,160)	(30.20%)	(1,591,997)	(52.62%)
Education and Training	R7	1,029,509	346,858	898,876	923,036	(24,160)	**942,644**	19,608	2.12%	43,768	4.87%
Administrative Services	R8	6,580,905	3,473,875	7,112,948	7,753,993	(641,045)	**7,492,663**	(261,330)	(3.37%)	379,715	5.34%
Other Income	R9	174,071	22,042	32,422	37,000	(4,578)	**23,360**	(13,640)	(36.86%)	(9,062)	(27.95%)
Total Revenues		62,297,726	47,230,612	72,211,583	73,144,395	(932,812)	**73,648,374**	503,979	0.69%	1,436,791	1.99%
Salaries	E1	31,687,915	16,017,765	32,520,684	34,186,064	(1,665,380)	**34,470,687**	284,623	0.83%	1,950,003	6.00%
Temporary Personnel	E2	468,163	278,054	481,298	562,945	(81,647)	**464,347**	(98,598)	(17.51%)	(16,951)	(3.52%)
Payroll Taxes	E3	2,267,356	1,320,090	2,378,987	2,437,455	(58,468)	**2,478,331**	40,876	1.68%	99,344	4.18%
Employee Benefits	E4	5,931,123	3,403,359	6,682,768	6,457,038	225,730	**7,293,103**	836,065	12.95%	610,335	9.13%
Employee Development	E5	600,094	382,402	452,396	692,861	(240,465)	**618,289**	(74,572)	(10.76%)	165,893	36.67%
Professional Services	E6	3,406,037	2,668,748	4,368,452	4,117,111	251,341	**3,615,584**	(501,527)	(12.18%)	(752,868)	(17.23%)
Computer Services	E7	1,657,656	793,587	1,612,742	1,432,732	180,010	**1,672,922**	240,190	16.76%	60,180	3.73%
Travel	E8	2,755,234	1,412,355	2,816,929	3,041,083	(224,154)	**3,033,497**	(7,586)	(0.25%)	216,568	7.69%
Occupancy	E9	5,052,976	2,609,973	5,381,925	5,090,726	291,199	**5,457,775**	367,049	7.21%	75,850	1.41%
Equipment Rental and Maintenance	E10	2,648,294	1,328,775	2,615,557	2,681,966	(66,409)	**2,680,164**	(1,802)	(0.07%)	64,607	2.47%
Depreciation and Amortization	E11	4,767,333	2,353,523	4,613,368	4,714,828	(101,460)	**3,496,620**	(1,218,208)	(25.84%)	(1,116,748)	(24.21%)
Insurance	E12	438,130	211,607	421,496	443,822	(22,326)	**436,568**	(7,254)	(1.63%)	15,072	3.58%
Telephone	E13	466,104	220,123	416,230	348,733	67,497	**368,857**	20,124	5.77%	(47,373)	(11.38%)
Supplies	E14	556,293	300,165	489,464	523,793	(34,329)	**468,148**	(55,645)	(10.62%)	(21,316)	(4.35%)
Mail Services	E15	319,272	159,179	303,823	324,891	(21,068)	**254,159**	(70,732)	(21.77%)	(49,664)	(16.35%)
Reference Materials	E16	562,948	270,014	534,598	525,983	8,615	**550,634**	24,651	4.69%	16,036	3.00%
Printing and Production	E17	379,682	111,717	197,760	237,868	(40,108)	**176,755**	(61,113)	(25.69%)	(21,005)	(10.62%)
National and Interim Meetings	E18	1,250,016	792,618	1,555,359	1,396,393	158,966	**1,178,865**	(217,528)	(15.58%)	(376,494)	(24.21%)
Education and Training	E19	594,204	167,442	391,941	494,289	(102,348)	**444,509**	(49,780)	(10.07%)	52,568	13.41%
State and General Training	E20	578,038	307,974	985,255	1,139,312	(154,057)	**1,172,746**	33,434	2.93%	187,491	19.03%
Other Expenses	E21	692,788	(175,988)	142,135	715,610	(573,475)	**652,543**	(63,067)	(8.81%)	510,408	359.10%
Total Operating Expenses		67,079,656	34,933,482	69,363,167	71,565,503	(2,202,336)	**70,985,103**	(580,400)	(0.81%)	1,621,936	2.34%
Revenues Over (Under) Expenses		$ (4,781,930)	$ 12,297,130	$ 2,848,416	$ 1,578,892	$ 1,269,524	$ **2,663,271**	$ 1,084,379		$ (185,145)	

A detailed analysis of each line item is included in the General Fund "Detail Revenues" and "Detail Expenses" tabs of the 2010 budget proposal.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
PROPOSED 2010 BUDGET
EXPENSE BUDGET BY AREA

Description	Reference	Technology Systems and Support	Business Operations	General Member Services	Financial Solvency Services	Market Regulatory Services	Products and Services	Total
Salaries	E1	$ 8,534,168	$ 7,271,453	$ 3,934,885	$ 7,953,566	$ 1,828,520	$ 4,948,095	$ **34,470,687**
Temporary Personnel	E2		391,166	73,181				**464,347**
Payroll Taxes	E3	656,221	460,814	279,988	553,988	140,596	386,724	**2,478,331**
Employee Benefits	E4		7,284,793	2,570	5,740			**7,293,103**
Employee Development	E5	97,789	73,322	275,015	42,663	56,234	73,266	**618,289**
Professional Services	E6	195,920	1,292,988	666,305		65,100	1,395,271	**3,615,584**
Computer Services	E7	598,788	64,744	61,761	667,517		280,112	**1,672,922**
Travel	E8	52,082	1,131,076	692,822	341,164	373,599	442,754	**3,033,497**
Occupancy	E9	8,302	4,137,632	608,052	692,839		10,950	**5,457,775**
Equipment Rental/Maintenance	E10	2,258,479	375,834	25,886	19,965			**2,680,164**
Depreciation and Amortization	E11		3,496,620					**3,496,620**
Insurance	E12		436,568					**436,568**
Telephone	E13	34,655	46,170	117,475	72,605	60,574	37,378	**368,857**
Office Services	E14	172,373	176,594	44,517	25,100	6,650	42,914	**468,148**
Mail Services	E15	2,708	29,817	55,933	11,504	3,900	150,297	**254,159**
Library Materials	E16	1,995	4,500	241,633	301,343		1,163	**550,634**
Printing	E17		2,000	11,700			163,055	**176,755**
National and Interim Meetings	E18			1,178,865				**1,178,865**
Education and Training	E19			221,987	153,861		68,661	**444,509**
State & General Training	E20	32,442	1,080,590	54,500			5,214	**1,172,746**
Other Expenses	E21		648,843	1,700			2,000	**652,543**
Total Operating Expenses		$ 12,645,922	$ 28,405,524	$ 8,548,775	$ 10,841,855	$ 2,535,173	$ 8,007,854	$ **70,985,103**

The categories presented above are for expense consolidation and reporting purposes only. They merely represent the grouping of like departments within the NAIC financial reporting structure and the manner in which these expenses are actively managed by Division Directors. No cost allocations or distribution of expenses are included herein.

Components:

Information Systems	Central Office	Member Services	Financial Regulation	Market Regulation	Sales & Marketing
Technical Services	Finance	Education & Training	SVO	Research	Production-Technical
Customer Support	Business Strategy	Meetings			Production-Product
State Support	Office Services	National Meetings			SERFF
Financial Systems	Human Resources	Communications			SBS
	Legal	Executive Office			

BUDGET ITEM: State Assessments

Item Description: Assessments from all members which are used to fund the activities of the NAIC offices. Members are assessed based upon the relative premium volume of their respective domiciled companies to total premium volume.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
State Assessments (1)	$ 2,063,935	$ 1,048,679	$ 2,113,949	$ 2,113,949	**$ 2,162,611**	$ 48,662	2.30%

(1) State assessments reflect no increase from 2009 in the $7,725 minimum assessment per state. The minimum level of assessment was approved by the Internal Administration (EX1) Subcommittee in September 2001. The $48,662 increase is a result of the redistribution of the total assessment based on premium volume and the reapplication of the minimum assessment which is consistent with all prior years since 2001. Premium volume is measured as direct written premium by companies domiciled in each state for the calendar year. The budgeted amount is based on four months of the May 2009 - April 2010 assessment and eight months of the May 2010 - April 2011 assessment. The May 2010 - April 2011 state assessments are illustrated in Exhibit R1-One. Exhibit R1-Two illustrates state assessments as a percentage of total NAIC revenue.

Exhibit R1-One

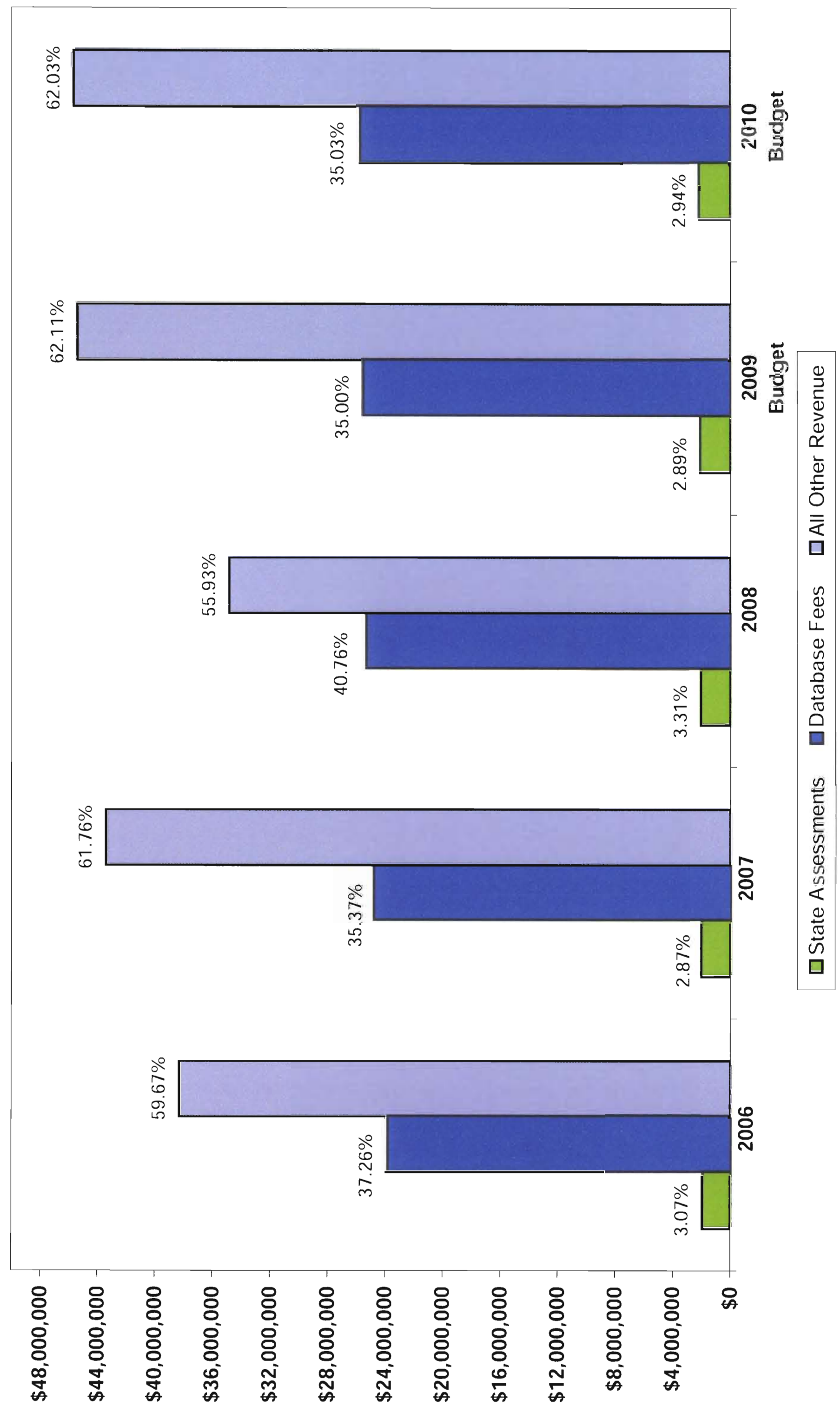
NAIC STATE ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	$7,725 Minimum 2010/11 Amount	$7,725 Minimum 2009/10 Amount	$7,725 Minimum 2008/09 Amount
Alabama	$ 19,488,394,743	1.22%	$ 26,097	$ 26,097	$ 25,831	$ 24,966
Alaska	3,077,784,134	0.19%	4,123	7,725	7,725	7,725
Arizona	26,270,147,449	1.65%	35,179	35,179	35,211	35,260
Arkansas	10,177,894,866	0.64%	13,629	13,629	13,271	13,067
California	128,703,492,677	8.09%	172,352	172,352	175,313	182,231
Colorado	27,888,998,416	1.75%	37,346	37,346	36,522	35,282
Connecticut	32,260,439,677	2.03%	43,201	43,201	45,386	42,816
Delaware	37,626,271,647	2.37%	50,387	50,387	35,359	34,385
District of Columbia	9,189,372,927	0.58%	12,306	12,306	11,432	10,955
Florida	107,283,577,100	6.74%	143,669	143,669	147,993	141,134
Georgia	40,200,424,515	2.53%	53,834	53,834	52,893	50,093
Hawaii	8,116,486,258	0.51%	10,870	10,870	11,182	11,171
Idaho	6,104,495,230	0.38%	8,175	8,175	8,059	8,149
Illinois	61,894,960,787	3.89%	82,886	82,886	81,814	82,437
Indiana	28,056,436,868	1.76%	37,572	37,572	38,245	36,541
Iowa	24,726,697,805	1.55%	33,113	33,113	31,291	22,583
Kansas	16,592,420,636	1.04%	22,219	22,219	27,926	21,854
Kentucky	16,696,464,786	1.05%	22,358	22,358	21,879	21,070
Louisiana	22,240,623,764	1.40%	29,783	29,783	29,110	28,596
Maine	6,074,465,070	0.38%	8,134	8,134	7,725	7,817
Maryland	28,489,964,711	1.79%	38,152	38,152	41,330	43,835
Massachusetts	46,459,548,688	2.92%	62,216	62,216	57,716	55,818
Michigan	52,388,712,102	3.29%	70,157	70,157	69,564	69,504
Minnesota	29,851,395,847	1.88%	39,975	39,975	40,117	39,602
Mississippi	10,145,748,301	0.64%	13,586	13,586	13,236	12,967
Missouri	29,454,296,454	1.85%	39,443	39,443	37,681	37,846
Montana	3,970,339,346	0.25%	5,318	7,725	7,725	7,725
Nebraska	9,834,872,508	0.62%	13,171	13,171	12,890	13,107
Nevada	11,593,447,564	0.73%	15,525	15,525	15,647	15,400
New Hampshire	8,391,773,860	0.53%	11,239	11,239	9,276	8,594
New Jersey	59,455,194,028	3.74%	79,618	79,618	80,370	86,361
New Mexico	8,679,130,828	0.55%	11,622	11,622	10,745	10,561
New York	155,047,728,847	9.75%	207,630	207,630	187,608	178,016
North Carolina	37,962,811,618	2.39%	50,837	50,837	50,554	48,743
North Dakota	4,326,700,488	0.27%	5,795	7,725	7,725	7,725
Ohio	55,841,908,507	3.51%	74,780	74,780	73,407	68,960
Oklahoma	14,501,078,666	0.91%	19,420	19,420	18,427	18,287
Oregon	19,777,400,006	1.24%	26,485	26,485	25,325	24,895
Pennsylvania	82,895,146,314	5.21%	111,007	111,007	105,424	104,949
Rhode Island	6,808,778,497	0.43%	9,119	9,119	10,635	9,069
South Carolina	18,355,967,291	1.15%	24,582	24,582	23,323	22,280
South Dakota	4,541,944,621	0.29%	6,083	7,725	7,725	7,725
Tennessee	26,615,514,575	1.67%	35,642	35,642	34,922	33,769
Texas	100,925,867,689	6.34%	135,153	135,153	131,365	126,632
Utah	11,047,944,805	0.69%	14,794	14,794	14,380	13,603
Vermont	3,016,103,330	0.19%	4,040	7,725	7,725	7,725
Virginia	36,700,113,344	2.31%	49,147	49,147	49,108	49,837
Washington	30,821,412,704	1.94%	41,275	41,275	40,286	40,254
West Virginia	7,735,549,855	0.49%	10,359	10,359	10,052	9,755
Wisconsin	30,478,861,599	1.92%	40,815	40,815	40,845	39,399
Wyoming	2,245,432,619	0.14%	3,006	7,725	7,725	7,725
American Samoa	4,374,674	0.00%	6	7,725	7,725	7,725
Guam	256,014,749	0.02%	343	7,725	7,725	7,725
Northern Mariana Islands	9,363,588,659	0.59%	12,538	12,538	7,725	7,725
Puerto Rico	304,295,976	0.02%	407	7,725	12,614	11,069
U.S. Virgin Islands	16,854,929	0.00%	23	7,725	7,725	7,725
Total State Assessments	$ 1,590,975,667,954	100.00%	$ 2,130,541	$ 2,178,647	$ 2,130,539	$ 2,080,769

Four months of the May 2009-April 2010 assessment	$ 710,180
Eight months of the May 2010-April 2011 assessment	1,452,431
Total calendar year 2010 assessment	$ 2,162,611

Exhibit R1-Two

State Assessments as Compared to Database Fees and All Other NAIC Revenue



* All Other Revenue includes publications and subscriptions, services, national meeting registration fees, investment income, education programs and other income.

BUDGET ITEM: Database Fees

Item Description: Fees from all insurance companies filing with the NAIC's Financial Data Repository. Fees are based on each filers premium volume. Premium volume is measured as the greater of direct written premium or reinsurance assumed from non-affiliates.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Database Fees (1)	$ 25,389,680	$ 25,540,216	$ 25,540,216	$ 25,603,263	**$ 25,789,955**	$ 186,692	0.73%

(1) Database filing fees projected for 2009 are based on actual filings received through June 30, 2009 and reflect growth in industry premium volume that is relatively consistent with the 2% assumed in the 2009 budget. The 2010 budget assumes a more conservative 1% growth in 2009 premium filed in 2010. The complete filing fee structure is included as Exhibit R2-One and has not changed since 2007. Exhibit R2-Two illustrates database filing fees as a percentage of total NAIC revenues.

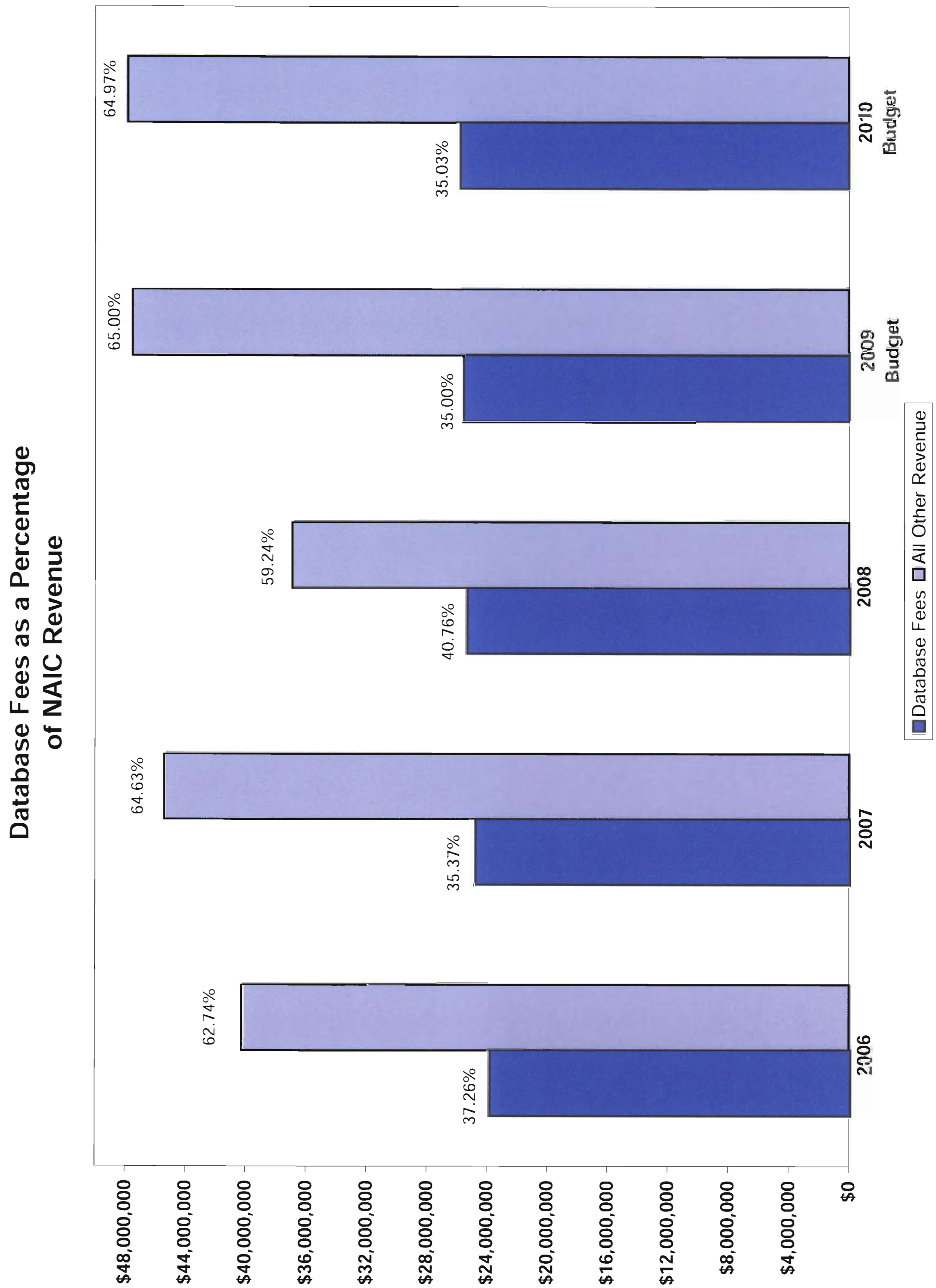
Exhibit R2-One

NAIC Database Filing Fee Structure
For 2009 Data Year Filings Submitted in March 2010

Premium Base Levels:				2010 Fee
$ -	to	$ 100,000		$ 247
$ 100,001	to	$ 1,000,000		$ 484
$ 1,000,001	to	$ 2,500,000		$ 722
$ 2,500,001	to	$ 7,500,000		$ 1,444
$ 7,500,001	to	$ 25,000,000		$ 2,403
$ 25,000,001	to	$ 100,000,000		$ 3,600
$ 100,000,001	to	$ 200,000,000		$ 5,035
$ 200,000,001	to	$ 300,000,000		$ 6,289
$ 300,000,001	to	$ 400,000,000		$ 7,723
$ 400,000,001	to	$ 500,000,000		$ 9,167
$ 500,000,001	to	$ 600,000,000		$ 11,039
$ 600,000,001	to	$ 700,000,000		$ 12,958
$ 700,000,001	to	$ 800,000,000		$ 14,877
$ 800,000,001	to	$ 900,000,000		$ 17,271
$ 900,000,001	to	$ 1,000,000,000		$ 19,674
$ 1,000,000,001	to	$ 1,100,000,000		$ 22,068
$ 1,100,000,001	to	$ 1,200,000,000		$ 24,472
$ 1,200,000,001	to	$ 1,300,000,000		$ 26,866
$ 1,300,000,001	to	$ 1,400,000,000		$ 29,269
$ 1,400,000,001	to	$ 1,500,000,000		$ 31,663
$ 1,500,000,001	to	$ 1,600,000,000		$ 34,067
$ 1,600,000,001	to	$ 1,700,000,000		$ 36,461
$ 1,700,000,001	to	$ 1,800,000,000		$ 39,339
$ 1,800,000,001	to	$ 1,900,000,000		$ 42,218
$ 1,900,000,001	to	$ 2,000,000,000		$ 45,096
$ 2,000,000,001	to	$ 2,100,000,000		$ 47,975
$ 2,100,000,001	to	$ 2,200,000,000		$ 50,853
$ 2,200,000,001	to	$ 2,300,000,000		$ 53,732
$ 2,300,000,001	to	$ 2,400,000,000		$ 56,610
$ 2,400,000,001	to	$ 2,500,000,000		$ 59,489
$ 2,500,000,001	to	$ 2,600,000,000		$ 62,367
$ 2,600,000,001	to	$ 2,700,000,000		$ 65,246
$ 2,700,000,001	or	greater		$ 69,428
Combined Filing Fee				$ 685
Individual Filing Fee Cap				$ 69,428
Group Filing Fee Cap				$ 208,284

Attachment Three
Jt. Executive (EX) Committee/Plenary
12/7/09

Exhibit R2-Two



*All Other Revenue includes state assessments, publications and subscriptions, services, national meeting registration fees, investment income, education programs and other income.

BUDGET ITEM: Publications and Insurance Data Products

Item Description: Revenues generated from the sale of various reference materials, handbooks, subscriptions, information stored on the NAIC's financial database, and security designations assigned by the Securities Valuation Office (SVO).

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Publications (1)	$ 4,969,645	$ 2,922,558	$ 5,365,236	$ 5,285,874	**$ 5,312,983**	$ 27,109	0.51%
Insurance Data Products (2)	8,812,252	2,074,384	8,867,212	9,473,089	**9,448,561**	(24,528)	(0.26%)
Automated Valuation Service (3)	3,291,244	1,755,597	3,639,658	3,503,194	**3,646,650**	143,456	4.10%
Total	$ 17,073,141	$ 6,752,539	$ 17,872,106	$ 18,262,157	**$ 18,408,194**	$ 146,037	0.80%

(1) Publications revenue is generated from the sale of hard copy, electronic downloadable and CD-ROM publications, reference materials, and royalties from the sale of these products by outside vendors. Early 2009 projections indicated a potential loss of approximately $273,000 due to declining sales, particularly in several top rated products. The Insurance Products and Services Division has implemented an action plan, including more targeted marketing, offers to renewal customers, discounted pricing, etc., in an effort to meet the 2009 budget. In addition, revenue from shipping and handling charges to customers purchasing hard copies are now included as a component of publications revenue rather than as a reduction in mail services. The 2010 budget assumes sales volumes consistent with 2009 projected levels. It also includes a modest increase in shipping and handling charges for hard copy customer orders.

As an alternative to hard copy orders, the NAIC has implemented an online publication order system, Account Manager, in July 2009 in an effort to (1) provide customers with instant and electronic access to NAIC publications, (2) offer customers an option to save shipping and handling costs and (3) reduce NAIC production, shipping and inventory management costs.

(2) Revenues generated from the sale of insurance data products are budgeted at $6,356,398 representing contracts with third party vendors who use, market, and sometimes redistribute NAIC data. It also includes royalties generated from vendor sales of the NAIC's Risk Based Capital Filing Support Product (RBCFSP) of $1,580,324 and the Annual Statement Filing Support Product (ASFSP) of $1,511,839 by six business partners. The primary factors for the more than $605,877 shortfall in projected 2009 revenues are (1) the reduction in two vendor contracts and (2) an anticipated reduction in projected redistribution royalties from the 2009 budget. While the 2010 budget assumes the continued economic impact on redistribution royalties, an overall increase is projected in 2010 as a result of growth with one significant redistribution vendor. Additionally, the 2010 budget proposes a contractual increase in the ASFSP royalty fees of $25 per unit (from $275 in 2009 to $300 in 2010) on sales of vendor software using the NAIC's ASFSP specifications and intellectual property, which is projected to increase 2010 revenues by $125,000.

(3) The Automated Valuation Service (AVS) is a system for the delivery of security designations assigned by the Securities Valuation Office (SVO) through electronic data feeds, which may be utilized by companies when preparing their Schedule D filings. 2010 revenues are consistent with 2009 projections, which assume targeted marketing to potential customers who may benefit from the use of AVS services.

BUDGET ITEM: Services

Item Description: Fees for services from the Securities Valuation Office (SVO), System for Electronic Rate and Form Filing (SERFF), Online Premium Tax for Insurance (OPTins), State Based Systems (SBS) and the International Insurers Department (IID).

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
SVO Fees (1)	$ 8,369,126	$ 3,639,167	$ 7,407,677	$ 8,029,725	**$ 8,563,450**	$ 533,725	6.65%
SERFF Fees (2)	4,236,700	2,027,803	4,091,292	3,902,853	**4,008,702**	105,849	2.71%
OPTins Fees (3)	1,630	14,846	30,896	127,383	**149,019**	21,636	16.98%
SBS Fees (4)	1,135,562	801,847	1,751,311	1,730,064	**2,460,738**	730,674	42.23%
IID Fees (5)	572,050	568,230	586,230	557,750	**557,750**		0.00%
Total	$ 14,315,068	$ 7,051,893	$ 13,867,406	$ 14,347,775	**$ 15,739,659**	$ 1,391,884	9.70%

(1) Since 2004, SVO revenues have included a blend of fee-for-service revenue and a fee assessment model. This approach is the result of work by the Revenue Considerations (EX1) Working Group, with the assistance of interested parties, on a proposal to ultimately exempt from filing with the SVO all NRSRO rated securities, on a "revenue neutral" basis. The Working Group's revenue blend approach was approved by the NAIC membership in September 2003 and was effective January 1, 2004. The 2010 budget includes $7,773,450 in service fees and $790,000 of fee assessment or one-half of the annual assessment approved in 2003. The assessment is allocated, on a proportionate basis, to those insurers that hold $1 billion or more of non-government and preferred stock investments. NAIC staff are currently researching additional analytical tools to enhance the solvency regulation framework, including providing state regulators with enhanced evaluations of insurer investment portfolio risks. The NAIC reserves the right as part of its 2010 budget proposal to assess a portion of the remaining one-half of the annual SVO assessment in order to cover the potential costs of value-added analytical tools for the benefit of regulators and industry. The decrease in 2009 projected SVO revenues is primarily the result of current market conditions, cost containment measures implemented by filing companies and the related low volume of new security offerings and structured finance arrangements.

The 2010 budget assumes conservative filing volumes, consistent with 2009 projected volumes, which would reduce filing fee revenues by $651,725. However, the 2010 budget proposes a modest rate increase of $25 to $150 on the majority of nonrated security filing product lines, with initial filings of nonrated securities increasing $400, generating $1,054,150 in filing fee revenue for a net $402,425 increase over the 2009 budget. This fee increase is to better align SVO pricing with the value of such services to the industry in comparison to similar services offered by rating agencies. The 2010 budget also proposes a $2,500 fee increase on the Portfolio Analysis Memorandum (PAM) product, specifically related to PAM reviews of company portfolios greater than $1 billion, which generates and additional $94,000 in revenues. The last increase in fees for the SVO occurred in 2007.

SVO products and services revenues include (1) $6,608,700 for nonrated security filings; (2) $382,000 for the processing of subsidiary valuation filings; (3) $130,000 for advance rating services; (4) $140,000 in services provided to banks that wish to be placed on the "Approved Bank List" maintained by the SVO; (5) $180,000 in service fees for the review of money market funds; (6) $2,000 in SVO appeals fees, representing an offset to the cost of the additional effort by the SVO staff when requested to conduct a face-to-face meeting on an appeal by a company that disagrees with the original credit assessment from the SVO; (7) $30,750 in SVO sovereign fees, representing an offset to the cost of the SVO's requirement to conduct a Sovereign analysis on the initial submission of issuing debt in a foreign country, and (8) $300,000 in Portfolio Analysis Management (PAM) fees. Non-rated security filing revenues are illustrated in Exhibit R4-One.

(2) SERFF filing volumes continue to grow as a result of state implementations of the Uniform Product Coding Matrices and continued growth in the use of SERFF by a growing number of states and companies. These factors are the basis for the projection of $188,439 in transaction revenue in excess of budget for 2009 and an increase in 2010 projected revenues of $105,849. Projected 2009 filing volumes of 528,804 are anticipated to increase to 538,438 filings in 2010 at an average price of $7.40.

Also included in the SERFF revenue line is a $25,000 annual license fee from the Interstate Insurance Product Regulatory Commission (IIPRC). Under this services agreement, the IIPRC is granted 250 SERFF development hours to make modifications to SERFF in order to accommodate IIPRC filings and the overall expansion/enhancements of IIPRC product filing operations.

(3) The NAIC's online premium tax submission and payment system (OPTins) is anticipated to generate $149,019 in revenue in 2010, a $118,123 increase over 2009 projected revenue. OPTins was released in June 2008 to automate and simplify premium tax return submissions by filing companies and collection by states, in exchange for a $10 transaction fee.

(4) SBS provides a comprehensive Web-based application for use by state regulators in support of all insurance regulatory functions. SBS enables state insurance departments to more efficiently and effectively process license applications, renewals, inquiries, complaints, enforcement actions, etc., and remain compliant with national uniformity initiatives. SBS online services and transaction fee product lines are expected to generate $261,194 in revenue over the 2009 budget due to the implementation of additional SBS states and product lines within existing SBS states, primarily continuing education transactions.

(5) International Insurers Department (IID) revenues are generated from processing applications for listing and processing annual financial filings from companies listed in the Quarterly Listing of Alien Insurers. The budget is based on 125 filings from companies and Lloyd's Syndicates, three new applications, and one late fee. The variance for 2009 is the result of an increased number of applications received. 2010 budgeted filings, applications, and late fees is anticipated to remain consistent with those anticipated in the 2009 budget.

Exhibit R4-One

Securities Valuation Office
Non-Rated Securities Revenues

Product Description	2007-2009 Filing Fee	2010 Filing Fee	Actual 2008 Volumes	Budgeted 2009 Volumes	Projected 2009 Volumes	Projected 2010 Volumes	2008 Actual Revenue	2009 Budgeted Revenue	2009 Projected Revenue	2010 Budgeted Revenue	Increase (Decrease) from 2009 Budget	Percentage
Corporates												
Corp. Initial Filing Non-Rated	$ 2,600	$ 3,000	479	616	331	471	$ 1,245,400	$ 1,601,600	$ 860,600	$ 1,413,000	$ (188,600)	(11.78%)
Corp. Annual Update Non-Rated	850	1,000	2,473	2,410	2,794	2,408	2,102,050	2,048,500	2,374,900	2,408,000	359,500	17.55%
Corp. Initial Filing NRSAR (Issuer in VOS)	1,100	1,250	971	1,000	784	993	1,068,100	1,100,000	862,400	1,241,250	141,250	12.84%
Foreign Equity	125	150	1,252	1,200	950		156,500	150,000	118,750		(150,000)	(100.00%)
Domestic Equity	125	150	727	800	707		90,875	100,000	88,375		(100,000)	(100.00%)
Schedule BA Annual Update Not Rated		1,000				86				86,000	86,000	100.00%
Schedule BA Initial Not in VOS		3,000				29				87,000	87,000	100.00%
Municipals												
Municipal Initial Filing Issue Non-Rated	2,600	3,000	70	40	53	58	182,000	104,000	137,800	174,000	70,000	67.31%
Municipal Annual Update Non-Rated	850	1,000	411	381	312	333	349,350	323,850	265,200	333,000	9,150	2.83%
Muni. Initial Filing NRSAR (Issuer in VOS)	1,100	1,250	36	66	72	31	39,600	72,600	79,200	38,750	(33,850)	(46.63%)
Structured												
Bond CTL Initial Filing	1,100	1,250	29	25	24	20	31,900	27,500	26,400	25,000	(2,500)	(9.09%)
Lease CTL Initial Filing	1,100	1,250	22	28	10	15	24,200	30,800	11,000	18,750	(12,050)	(39.12%)
Structered Annual Update-Rated	850	1,000	34	58	20	9	28,900	49,375	17,000	9,000	(40,375)	(81.77%)
Replication Initial Filing	1,100	1,250	574	395	450	469	631,400	434,500	495,000	586,250	151,750	34.93%
Structured Initial Filing Non-Rated	1,100	1,250	23	57	56	60	25,300	62,700	61,600	75,000	12,300	19.62%
Structured Initial Filing Rated	250	300	84	168	30	20	21,000	42,000	7,500	6,000	(36,000)	(85.71%)
Structured Replication Annual Update Rated	125	150	482	430	657	428	60,250	53,750	82,125	64,200	10,450	19.44%
Structered Annual Update Rated	125	150				250				37,500	37,500	100.00%
Canadian												
Initial Filing Non-Rated	2,600	3,000										
Annual Update Non-Rated	850	1,000		2	2	2		1,700	1,700	2,000	300	17.65%
Canadian Initial NRSAR (Issuer in VOS)	1,100	1,250										
Governments												
Government Issuer Not in VOS	2,600	3,000										
Government Annual Update Non-Rated	850	1,000	11	4	4	4	9,350	3,400	3,400	4,000	600	17.65%
Government Initial Non-Rated	1,100	1,250	1				1,100					
			7,679	7,680	7,256	5,686	$ 6,067,275	$ 6,206,275	$ 5,492,950	$ 6,608,700	$ 402,425	6.48%

BUDGET ITEM: Meetings Registration Fees

Item Description: Fees received from attendees at NAIC National Meetings, net of revenue sharing with the four NAIC Zones.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
National Meetings Registration Fees (1)	$ 1,820,999	$ 854,650	$ 1,748,275	$ 1,937,514	**$ 1,655,900**	$ (281,614)	(14.53%)
National Meeting Revenue Share (2)	137,600			112,160		(112,160)	(100.00%)
Total	$ 1,958,599	$ 854,650	$ 1,748,275	$ 2,049,674	**$ 1,655,900**	$ (393,774)	(19.21%)

(1) National meeting registration fees are projected based on Exhibit R5-One. The registration fees are charged on a multi-tier basis such that early registrations receive a discount and certain incentives are offered to first-time and local attendees. As a result of the reduction from four national meetings in 2009 to three in 2010, and conservative assumptions of 2010 paid registrations, 2010 revenues would have reduced by the $479,550 in registration revenues budgeted for the 2009 Winter National Meeting. However, the 2010 budget proposes a $50 increase in registration fees for each of the 2010 national meetings for a total of $132,700 in additional 2010 registration revenues. For the average attendee, registration fees of $2,200 for four 2009 meetings would reduce to $1,800 for three 2010 meetings. The increase also helps to offset growing meetings expenses.

Regarding national meetings, the allocation of direct and indirect costs associated with each national meeting indicates an average net expense of $180,558 per meeting, which reduces to an average net expense of $136,324 per meeting when including the proposed fee increase. The 2010 budget assumes average registrations of 885 per meeting, which is more conservative than 2006 to 2009 average registration levels of 915 per meeting.

(2) National meeting revenue sharing in 2008 and in the 2009 budget represents the transfer of 25% of national meeting revenues over expenses equally to each of the four NAIC Zones as approved by the Internal Administration (EX1) Subcommittee in September 2001. Following the adoption of the 2009 budget, the Subcommittee voted to eliminate the volatility in the amount of funds received by each zone and replaced the national meeting based allocation with an annual allocation of $35,000 per zone per year, or a total of $140,000. This change in allocation method yielded a change in the accounting for these funds. Previously, revenue was booked to the zone budgets with an offsetting credit to national meeting revenue. With the new methodology, the amount is recorded as expense to the NAIC as incurred by the Zones.

Exhibit R5-One

National Meeting Registrations

	Fee	Denver Registrants	Denver Total	Seattle Registrants	Seattle Total	Washington D.C. Registrants	Washington D.C. Total	Total Registrants	Total Total
Advance Registration	$ 600	700	$ 420,000	732	$ 439,200	722	$ 433,200	2,154	$ 1,292,400
Registration after 30 Days Prior	$ 700	165	115,500	183	128,100	188	131,600	536	375,200
First Time, Local Registrants	$ 325	10	3,250	10	3,250	10	3,250	30	9,750
Subtotal		875	538,750	925	570,550	920	568,050	2,720	1,677,350
Cancellations	$ 325	(22)	(7,150)	(22)	(7,150)	(22)	(7,150)	(66)	(21,450)
Total Projected Paid Attendance and Revenues		853	$ 531,600	903	$ 563,400	898	$ 560,900	2,654	$ 1,655,900
Total Projected Registrations		1,575		1,600		1,625		4,800	

2010 attendance projections were determined by taking into consideration location and past attendance.

Prior Year Paid Attendance Statistics:	Spring		Summer		Fall		Winter	
2009	751	San Diego	774	Minneapolis		Washington D.C.		San Francisco
2008	889	Orlando	884	San Francisco	914	Washington D.C.	798	Dallas
2007	1,064	New York City	925	San Francisco	898	Washington D.C.	818	Houston
2006	882	Orlando	980	Washington D.C.	890	St. Louis	1,032	San Antonio
2005	838	Salt Lake City	1,059	Boston	(cxl'd)	New Orleans	1,039	Chicago
2004	819	New York City	950	San Francisco	564	Anchorage	999	New Orleans
2003	877	Atlanta	1,052	New York City	892	Chicago	821	Anaheim
2002	894	Reno	998	Philadelphia	797	New Orleans	963	San Diego
	7,014		7,622		4,955		6,470	
Average attendance 2006-2008	945		930		901		883	

BUDGET ITEM: Investment Income

Item Description: Interest, dividends, and realized and unrealized gains/losses on the NAIC investment portfolio and cash equivalents. Also included is interest earned on the lines of credit granted to the Interstate Insurance Product Regulation Commission (IIPRC).

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Interest Income (1)	$ 1,073,870	$ 398,642	$ 797,655	$ 1,182,328	**$ 684,858**	$ (497,470)	(42.08%)
Dividend Income (2)	1,288,477	387,939	874,451	871,220	**748,530**	(122,690)	(14.08%)
Realized Gain/(Loss) (3)	(1,114,825)	(1,180,588)	(1,180,588)				
Unrealized Gain/(Loss) (3)	(7,534,705)	2,533,867	2,533,867				
Total	$ (6,287,183)	$ 2,139,860	$ 3,025,385	$ 2,053,548	**$ 1,433,388**	$ (620,160)	(30.20%)

(1) The investment policy of the NAIC was approved by the Internal Administration (EX1) Subcommittee in December 2003 and continues to be revised based on recommendations from the NAIC investment advisor. The NAIC does not budget for realized or unrealized gains and/or losses in the investment portfolio due to the uncertainty of future fluctuations in capital markets. The budget is based on interest income on the long-term fixed income portfolio and short-term investments. The decrease from the 2009 budget is based on the continued decline in interest rates offset by an additional $14,297 in interest income from the Interstate Insurance Product Regulation Commission (IIPRC), based on the estimated provision of an $850,000 line of credit to the IIPRC in 2010 and interest earned on the 2009 line of credit for a full year.

(2) Dividend income is budgeted based on historical dividend receipts, which are projected to perform in line with budget in 2009. The 2010 budget anticipates a significant decrease in dividends due to sustained declines in overall market performance and continued pressure on dividend-paying corporate profits.

(3) While the NAIC budget does not anticipate realized or unrealized gains or losses, it is important to note the $1,180,588 in realized losses and $2,533,867 in unrealized gains included in the 2009 projections represent actual results through June 30, 2009. While these projections will change based on the overall performance of the capital markets for the remainder of 2009, the NAIC does not project further changes through December 31, 2009 or in to 2010.

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education programs.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Commissioners Forum (4)	$ 29,228		$ 32,475	$ 33,774		$ (33,774)	(100.00%)
Financial Examiners (4)	23,290	$ 20,710	20,710	27,250		(27,250)	(100.00%)
Legal CLE Workshops (2)	37,745		30,828	44,040	**$ 38,130**	(5,910)	(13.42%)
Regulation For Solvency (2)	7,140		9,156	13,080	**9,900**	(3,180)	(24.31%)
Surplus Lines Regulation (3)	7,120				**9,790**	9,790	100.00%
HMO Annual Statement (4)	15,545						
P&C Annual Statement (2)			22,343	24,825	**12,900**	(11,925)	(48.04%)
Advanced Fraud (2)	24,795	15,125	15,125	25,750	**15,420**	(10,330)	(40.12%)
Onsite Programs (5)	80,475	36,090	77,690	75,000	**75,000**		0.00%
Market Conduct Examiners Handbook (2)	8,135		16,240	23,200	**8,690**	(14,510)	(62.54%)
Statutory Accounting Principles (3)	15,320		15,610	22,300		(22,300)	(100.00%)
International Issues Conference (1)		47,350	47,350	32,250	**51,650**	19,400	60.16%
IMR/AVR Online (3)			13,375	13,375		(13,375)	(100.00%)
Online Investment Schedules (2)	36,265		44,310	44,310	**37,170**	(7,140)	(16.11%)
Online Introduction To Financial Regulation (1)	25,390		26,775	26,775	**35,700**	8,925	33.33%
Online ISQ Training			12,640	8,415	**9,875**	1,460	17.35%
Online Schedule P (4)	13,885		11,105	11,105	**13,095**	1,990	17.92%
Online Core Legal Issues	8,305	5,310	9,440	8,260	**8,260**		0.00%
Online Reinsurance (2)	16,335		19,570	19,570	**16,920**	(2,650)	(13.54%)
Current Legal Issues (4)	15,010						
Online Health Annual Statement Preparation (1)	33,675		26,325	26,325	**33,675**	7,350	27.92%
Regional Market Conduct Training (2)	15,460	4,633	4,633	15,805	**9,900**	(5,905)	(37.36%)
Online Financial Regulation & Staff Education (2)	18,445		24,990	24,990	**18,810**	(6,180)	(24.73%)
Online Market Analysis Techniques	8,415	9,405	9,405	7,425	**8,415**	990	13.33%
Statutory Accounting 101 Program (3)	53,553				**11,500**	11,500	100.00%
SAP Webinars (1)	111,995		52,800	52,800	**80,280**	27,480	52.05%
Basic Insurance Self Study (2)	7,920	5,110	10,774	10,750	**7,900**	(2,850)	(26.51%)
How to Analyze Insurer Portfolios (3)	12,250				**11,850**	11,850	100.00%
How to File Securities with the SVO Online (2)	16,660	11,900	24,245	24,695	**16,060**	(8,635)	(34.97%)
Consumer Assistance Training Online (1)	11,800		8,850	8,850	**11,210**	2,360	26.67%
Model Laws Webinar (2)	3,580		7,600	7,600	**3,600**	(4,000)	(52.63%)
Bundles of Learning	7,750	4,800	7,283	6,875	**8,000**	1,125	16.36%
Producer Licensing Online Training (1)	10,915	4,720	9,145	8,850	**11,210**	2,360	26.67%
Management and Leadership Effectiveness (2)	15,345	8,415	8,415	12,375	**7,425**	(4,950)	(40.00%)
Regulatory Overview of a Principles-Based Valuation System (2	12,495		27,083	38,690	**21,960**	(16,730)	(43.24%)

R7a: Education and Training

BUDGET ITEM: Education and Training (continued from R7a)

What's Going on with Health Insurance (4)	$ 13,520						
Regulation of Insurance Products Online (2)	7,425	$ 14,355	$ 25,245	$ 21,780	**$ 10,890**	$ (10,890)	(50.00%)
Fraud Investigation 101 (4)	11,455		8,295	11,850		(11,850)	(100.00%)
Risk-Based Capital Training (1)	10,915	9,775	16,910	5,900	**11,850**	5,950	100.85%
Regulating for Solvency: Risk Retention Groups		8,280	8,280	7,590	**8,280**	690	9.09%
Managing the Cost of Regulatory Compliance (1)			35,775	35,775	**55,200**	19,425	100.00%
Emerging Issues (7)		62,757	62,757	10,100	**29,100**	19,000	188.12%
Sales and Suitability (7)	30,705				**21,750**	21,750	100.00%
Professional Designation Program	15,525	13,600	23,051	18,250	**18,250**		0.00%
Financial Summit (6)	112,750				**72,250**	72,250	100.00%
Risk Assessment Training (8)	13,300			4,550	**11,850**	7,300	160.44%
Solvency Modernization Webinar (10)					**22,560**	22,560	100.00%
Royalty Revenues	6,025	1,000	8,750	7,750	**6,625**	(1,125)	(14.52%)
E-Regulation Conference (9)	103,648	63,523	63,523	100,182	**69,744**	(30,438)	(30.38%)
Total	$ 1,029,509	$ 346,858	$ 898,876	$ 923,036	**$ 942,644**	$ 19,608	2.12%

(1) Increased registrations are expected for this program.

(2) Decreased registrations are expected for this program.

(3) These programs are offered every other year.

(4) These programs will not be offered in 2010 as part of an association-wide review of services and priorities of education topics and issues into 2010.

(5) The NAIC offers insurers the opportunity of holding its Annual Statement Investments Schedules, Health Annual Statement Preparation, and Basic Risk Assessment programs onsite. The insurer provides the location and participants, the NAIC provides the instructors, materials, and administration of the program for a fee.

(6) The NAIC Financial Summit will not be held in 2009 to take advantage of the change in national meeting schedule to move the offering of this conference to June 2010. The 2008 dates for the Financial Summit were October 27-29. The reduction in revenue is based on an estimated decrease in the number of participants based on economic conditions.

(7) Due to the consistent addition of programs in mid-year after the preparation of the budget, an amount has been established to assume that at least one education program will arise during the year that was not contemplated during the preparation of the budget. The Sales and Suitability program is the unbudgeted program that surfaced in 2008. Due to the positive response to this offering this program will continue on an every other year basis.

(8) With the number of training sessions offered in previous years the need for Risk Assessment trainings has decreased. The Basic Risk Assessment trainings and Advanced Risk Assessment trainings will wind down in 2009 and be replaced with an online version to address training needs in this area in 2010 and beyond.

(9) Registration fees for the NAIC E-Regulation Conference will increase by $25 in 2010 generating an additional $4,875 in revenue for this program. Exhibitor fees for this conference will increase $395 yielding an additional $3,160. Registrations for this program fell well below expectations in 2009 and are expected to remain at that level.

(10) New program for 2010 (See Fiscal Impact 3)

BUDGET ITEM: Administrative Services/License Fees/Revenue Sharing

Item Description: Revenues received from the license and services agreements with National Insurance Producer Registry (NIPR) and Interstate Insurance Product Regulation Commission (IIPRC), as well as revenue sharing with the four NAIC zones.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
SPLR Usage Fees (1)	$ 477,346	$ 479,774	$ 1,246,015	$ 1,193,625	**$ 1,688,275**	$ 494,650	41.44%
License Fees (2)	4,988,976	2,442,018	4,741,933	5,435,368	**4,679,388**	(755,980)	(13.91%)
Administrative Service Fees (3)	1,114,583	552,083	1,125,000	1,125,000	**1,125,000**		0.00%
	$ 6,580,905	$ 3,473,875	$ 7,112,948	$ 7,753,993	**$ 7,492,663**	$ (261,330)	(3.37%)

(1) Effective April 1, 2008, the State Producer Licensing System (SPLR) usage fee was negotiated between NAIC and NIPR to be phased in with the release of reengineered processes in the SPLR. This per-transaction usage fee on NIPR transactions processed through the reengineered system represents NIPR's long-term commitment and support for this system and NAIC's ongoing investment to further the producer licensing infrastructure. The usage fee began in April 2008 at $.03, increased to $.06 on July 1, 2008, $.09 on October 1, 2008 and $.12 on January 1, 2009. While the fee was budgeted to increase to $.15 on April 1, 2009 this increase was delayed for three months while the implementation plan underwent a detailed reevaluation. The fee will increase to $.18 on October 1, 2009, which is the maximum charge under this existing agreement. The 2009 delay in the scheduled fee increase is offset by projected growth of the NIPR product volumes during 2009. The increase in 2010 is related to the receipt of $.18 per transaction for a full year and an increases in projected NIPR transaction volumes from 2009 to 2010.

(2) Pursuant to a license and services agreement, the NAIC receives 30% of certain NIPR revenues, which represents a license for NIPR to use the NAIC's producer data. The budget variance in 2009 and the decreased budget for 2010 are the result of an inadvertent error in the calculation of the 2009 budget for licenses fees. While the NAIC receives 30% of certain NIPR gross transaction revenues, a portion of this revenue is allocated to the SBS revenue line, specifically representing the NIPR transactions processed through the SBS system. The anticipated SBS revenue allocation was appropriately budgeted with the SBS budget center, but was also inadvertently budgeted in the license fee budget center. The result is a $604,776 overstatement in the 2009 license fee budget. The 2010 budget decrease from 2009 projected levels relates to a larger allocation to the SBS budget center in 2010, due to an increased number of NIPR transactions processed through the SBS system, offset slightly by an increase in overall revenue sharing from the anticipated increase in NIPR transaction revenues in 2010.

(3) Administrative service fees includes $1 million for administrative service fees from NIPR and $125,000 for administrative service fees from the IIPRC for administrative support services, facilities, and equipment provided by the NAIC.

BUDGET ITEM: Other Income

Item Description: Revenues received from miscellaneous sources.

Description	2008 Actual	6/30/09 Actual	12/31/2009 Projected	2009 Budget	2010 Budget	Increase (Decrease)	Percentage
Other Income (1)	$ 174,068	$ 22,042	$ 32,422	$ 37,000	**$ 23,360**	$ (13,640)	(36.86%)

(1) The 2008 actual includes $87,875 for charges to vendors with telecommunication links to certain states via the NAIC's State Insurance Technology Enhancement Network, or Frame Relay. This network, established in 1993, was discontinued in the latter part of 2008 due to a strong decline in the benefits and use of this network in the current technology and internet environment. As a result of the Frame Relay elimination, the NAIC generates cost savings of more than $500,000 annually. The 2010 budget consists primarily of $12,000 for a service level agreement with the New York State Insurance Department to accept supplemental filings submitted to the Department by New York licensed insurers through the NAIC internet filing application.

BUDGET ITEM: Salaries

Item Description: Includes salary and overtime for all NAIC employees.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Salaries - Existing Employees (1)	$ 31,427,853	$ 15,855,214	$ 32,241,918	$ 33,667,860	**$ 34,738,049**	$ 1,070,189	3.18%
Turnover Factor (2)				(402,733)	**(411,723)**	(8,990)	2.23%
Salaries - New Employees (3)					**45,000**	45,000	100.00%
Salaries - Pay for Performance (4)				654,166		(654,166)	(100.00%)
Secondment (5)	193,343	105,462	191,729	221,728	**40,000**	(181,728)	(81.96%)
Overtime (6)	66,719	57,089	87,037	45,043	**59,361**	14,318	31.79%
Total	$ 31,687,915	$ 16,017,765	$ 32,520,684	$ 34,186,064	**$ 34,470,687**	$ 284,623	0.83%

(1) The NAIC will generate significant salary savings in fiscal year 2009 for several reasons; (1) open positions from January 1 through June 30, 2009; (2) salary increases for NAIC employees were frozen effective July 1, 2009 and are anticipated to remain at the current level through June 30, 2010, as a result of cost reduction measures implemented in June 2009; and (3) NAIC management has implemented a high priority-based review of vacant NAIC positions in an effort to generate salary savings without impacting critical membership services. These factors combine for projected savings of $1.0 million in salaries in 2009, including the impact of turnover assumptions in the 2009 budget.

The 2010 budget includes (1) the addition of $272,073 for the five positions added for the transition of the NAIC's Executive Office and creation of the Center for Insurance Policy and Research in mid-year 2009 to a full year of salary in 2010, (2) 50% of the annual average salary increase of 3.5% assumed in the 2009 budget, or $593,950 to accommodate the 2010 impact of 2009 salary increases prior to July 1, 2009 and (3) the addition of salary for the conversion of the NAIC's seconded employee to the International Association of Insurance Supervisors (IAIS) to a full-time employee beginning in March 2010.

NAIC management will carefully evaluate actual financial results through 2009 and in to 2010, prior to recommending a specific salary increase to be reintroduced in 2010. Historically, the NAIC has based its annual average salary increase on national salary surveys such as the William Mercer Compensation Planning Survey and the World at Work Salary Budget Survey, which will continue to be evaluated as survey results are published and in relation to operating results in to 2010.

As of June 30, 2009, the NAIC has 433.5 approved full-time equivalent positions.

Technology Systems and Support	131.0
Business Operations	58.0
Services to Members	51.5
Financial Solvency Services	89.0
Market Regulatory Services	26.5
Products and Services	77.5
Total Headcount	433.5

BUDGET ITEM: Salaries (continued from E1a)

(2) The turnover factor anticipates a turnover percentage of 9% with an average vacancy duration of seven weeks in 2010. There is no change from the assumptions used in the 2009 budget.

(3) One new employee request is included in the Market Conduct Annual Statement fiscal impact statement (See Fiscal Impact 1).

(4) The NAIC began using a promotions and adjustments line equal to 1% of salaries in 2007 for the purpose of attracting and retaining qualified individuals for employment with the NAIC. In 2009, $300,000 was added as a performance incentive program designed to allow for a one time compensation to be given to very high performers at the senior management level to recognize outstanding performance by employees with a significant impact on the association's support of state regulation, committee support, technology endeavors, product development, and budgetary processes. These amounts were not implemented in 2009 as a result of cost reduction measures implemented by NAIC management in early 2009. These amounts are also not included in the 2010 budget proposal.

(5) The NAIC secondment to the IAIS was approved in 2008, allowing the NAIC to play an important role in the IAIS Secretariat by improving the administration and transparency of the organization and ensuring the proper representation of U.S. interests in IAIS activities. The secondment arrangement ends in February 2010 and, consistent with the proposal approved in 2008, this employee will return as a full-time NAIC employee in March 2010.

(6) The 2009 projected overtime is a reflection of the amount of overtime required to support certain NAIC projects in 2009. The increase in this line in to 2010 is related to increased efforts to market and deliver NAIC products and services, infrastructure support, and SBS state implementations.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Salaries - Existing Employees (1)	$ 8,619,456	$ 7,305,949	$ 3,965,140	$ 8,051,108	$ 1,805,946	$ 4,990,450
Turnover Factor (2)	(104,421)	(78,838)	(48,042)	(97,542)	(22,426)	(60,454)
Salaries - New Employees (3)					45,000	
Salaries - Pay for Performance (4)						
Secondment (5)		40,000				
Overtime (6)	19,133	4,342	17,787			18,099
Total	$ 8,534,168	$ 7,271,453	$ 3,934,885	$ 7,953,566	$ 1,828,520	$ 4,948,095

E1b: Salaries

BUDGET ITEM: Temporary Personnel

Item Description: Fees paid to outside agencies and wages paid to interns for additional personnel during peak work periods.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Annual Database Project	$ 2,885		$ 4,864	$ 4,864		$ (4,864)	(100.00%)
National Meetings (1)	73,110	$ 35,897	79,211	89,755	**$ 73,181**	(16,574)	(18.47%)
Interns (2)	354,548	207,515	332,167	457,226	**388,566**	(68,660)	(15.02%)
Other (3)	37,620	34,642	65,056	11,100	**2,600**	(8,500)	(76.58%)
Total	$ 468,163	$ 278,054	$ 481,298	$ 562,945	**$ 464,347**	$ (98,598)	(17.51%)

(1) Temporary resources at the national meetings are used for security and door monitoring. The 2010 budget for such services are lower due to the reduction from four to three national meetings in 2010, offset by slight estimated increases in meeting venues in 2010.

(2) The NAIC internship program is designed to help find qualified, temporary resources, in a competitive marketplace. Some of the projects that are slated for intern assignment include SBS implementations; SERFF product support; the Quality Assurance testing; Communications Division Support; NAIC Help Desk support; and legal research. The use of interns allows for more stability and continuity and has been a very successful program for the NAIC with respect to identifying and retaining qualified candidates for full-time positions. The decrease in interns in 2009 relates to cost reduction measures implemented in June 2009. The decrease from 2009 budget to the 2010 budget illustrates continued constraint in the level of intern resources planned for 2010, based on a careful review of the need for short term resources in areas with cyclical increases in workload.

(3) Temporary personnel is budgeted to provide additional resources during brief periods of increased demand. The overage in 2009 represents the engagement of temporary staff to fulfill the responsibilities of a staff member, a member of the Army Reserves, who had been called to active military duty for a period of one year. The 2010 budget illustrates a decreased need for outside temporary resources throughout the organization.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Annual Database Project						
National Meetings (1)			$ 73,181			
Interns (2)		$ 388,566				
Other (3)		2,600				
Total	$ -	$ 391,166	$ 73,181	$ -	$ -	$ -

E2: Temporary Personnel

BUDGET ITEM: Payroll Taxes

Item Description: FICA and unemployment compensation costs incurred for all NAIC employees and interns.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
FICA (1)	$ 2,180,215	$ 1,244,146	$ 2,297,255	$ 2,381,599	**$ 2,428,520**	$ 46,921	1.97%
FICA Turnover (2)				(27,856)	**(29,110)**	(1,254)	4.50%
Unemployment Compensation (3)	87,141	75,944	81,732	83,712	**78,921**	(4,791)	(5.72%)
Total	$ 2,267,356	$ 1,320,090	$ 2,378,987	$ 2,437,455	**$ 2,478,331**	$ 40,876	1.68%

(1) FICA expense savings in 2009 result from the 2009 salary savings described in the salary section of the budget proposal. The increase in FICA for 2010 is related to a projected increase in the FICA wage base, one new employee request for 2010, and the increase in the 2010 salary budget as described in the salary section of the budget proposal.

(2) The turnover factor that is applied to salaries is also applied to the taxes related to those salaries.

(3) Unemployment compensation has been budgeted on the first $12,500 of each individual salary in Missouri and the first $9,000 in Washington, D.C. New York unemployment compensation is paid as claims are filed.

2010 Budget by Area

Description	Technology Systems and and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
FICA (1)	$ 639,433	$ 446,655	$ 275,742	$ 552,960	$ 137,353	$ 376,377
FICA Turnover (2)	(7,749)	(5,071)	(3,351)	(6,711)	(1,666)	(4,562)
Unemployment Compensation (3)	24,537	19,230	7,597	7,739	4,909	14,909
Total	$ 656,221	$ 460,814	$ 279,988	$ 553,988	$ 140,596	$ 386,724

BUDGET ITEM: Employee Benefits

Item Description: Includes all pension, health insurance, and life and disability insurance paid by the NAIC for its employees, as well as programs designed to reduce health insurance costs and retain employees at the NAIC.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Pension (1)	$ 3,394,251	$ 2,195,388	$ 4,160,165	$ 3,792,460	**$ 4,478,242**	$ 685,782	18.08%
Health Benefits (2)	2,130,989	1,048,734	2,222,738	2,281,265	**2,440,686**	159,421	6.99%
Group Life and Disability (3)	185,858	100,150	204,744	203,776	**225,920**	22,144	10.87%
Employee Relations (4)	220,025	59,087	95,121	179,537	**148,255**	(31,282)	(17.42%)
Total	$ 5,931,123	$ 3,403,359	$ 6,682,768	$ 6,457,038	**$ 7,293,103**	$ 836,065	12.95%

(1) The 2010 net periodic pension cost for the NAIC's defined benefit plan is estimated at $2.8 million. This cost is based on actuarial assumptions and is calculated for the NAIC by an independent actuarial consulting firm. The 2010 cost is consistent with the 2009 projection, with both being $700,000 higher than the 2009 budget. The increase in costs related to this plan are directly attributable to the market performance of plan assets since late 2007, in relation to the 7% return assumption for the plan, and declining discount rates. NAIC management works with the plan's actuary and the NAIC Audit Committee to carefully review plan performance in relation to underlying plan assumptions, and anticipates a healthy reduction in the annual expense of the plan as the financial markets recover and discount rates improve. Also included in this budget is the defined contribution plan to which the NAIC makes a 2% discretionary match of each employee's annual salary and matches an employee's contribution up to 3.5%. This expense is budgeted to increase $22,084 based on current staff and salaries in to 2010.

Regarding the 2009 projected variance, the $700,000 increase in defined benefit pension costs is offset by the suspension of the 2% defined contribution discretionary match from July 1 to December 31, 2009 as part of the cost reduction measures implemented by the NAIC in June 2009.

(2) Employee health benefits are based upon current employees and their benefit selections. The increase in expense in to 2010 is due to the 10% health insurance premium increase incurred at the August 2009 renewal period and an assumed 10% increase at the August 2010 renewal date.

(3) Group life and disability benefits are based upon current employees and salaries. The increase in 2010 directly relates to the increase in 2010 salaries as described in the salary section of the budget proposal.

(4) Employee relations includes performance recognition programs, incidental employee functions, such as Employee Appreciation Week, and the annual holiday luncheon. The 2009 projection reflects cost reduction measures implemented in June 2009. The budget demonstrates continued constraint in these areas in to 2010.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Pension (1)		$ 4,478,242				
Health Benefits (2)		2,440,686				
Group Life and Disability (3)		225,920				
Employee Relations (4)		139,945	$ 2,570	$ 5,740		
Total	$ -	$ 7,284,793	$ 2,570	$ 5,740	$ -	$ -

E4: Employee Benefits

BUDGET ITEM: Employee Development

Item Description: Includes fees for seminars, training courses and professional association memberships paid by the NAIC.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Education Reimbursements (1)	$ 31,720	$ 14,996	$ 30,914	$ 40,963	**$ 34,319**	$ (6,644)	(16.22%)
Professional Training (2)	272,856	97,926	123,427	329,460	**246,954**	(82,506)	(25.04%)
Professional Association Dues (3)	295,518	269,480	298,055	322,438	**337,016**	14,578	4.52%
Total	$ 600,094	$ 382,402	$ 452,396	$ 692,861	**$ 618,289**	$ (74,572)	(10.76%)

(1) Educational reimbursements carry an annual cap per employee, are only available to those employees who are actively pursuing college degrees or professional designations, and only apply toward tuition for courses that specifically relate to and enhance the employee's job responsibilities. The 2009 variance from budget reflects the application of cost cutting measures implemented in June 2009. The 2010 budget also assumes a slight reduction from the 2009 budget.

(2) Professional training represents registration fees for professional seminars, trade workshops, and education programs attended by NAIC employees who required specialized training or are required to receive continuing education to maintain professiona licenses or designations. The decrease in this budget line is related to cost cutting measures implemented in June 2009, where all non-essential professional training was eliminated or significantly reduced for the latter half of the year. The 2010 budget assumes continued cost reductions where possible with a focus on essential training needs and employee professional designation and licensing requirements.

(3) Professional association dues include $240,143 for the NAIC's annual membership in the International Association of Insurance Supervisors (IAIS), representing an increase of $28,372 over the dues paid in 2009 and $7,143 over the 2009 budget. The budget also includes employee memberships in various professional associations, such as the American Society of Association Executives, American Bar Association, local and state bar associations, the American Institute of Certified Public Accountants, and state CPA associations, among others.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Education Reimbursements (1)	$ 16,670	$ 2,035		$ 3,038	$ 6,775	$ 5,801
Professional Training (2)	76,703	24,695	$ 12,797	29,695	38,730	64,334
Professional Association Dues (3)	4,416	46,592	262,218	9,930	10,729	3,131
Total	$ 97,789	$ 73,322	$ 275,015	$ 42,663	$ 56,234	$ 73,266

E5: Employee Development

BUDGET ITEM: Professional Services

Item Description: Fees paid to outside consultants for legal, actuarial, information technology, and other consulting services.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Legal (1)	$ 365,302	$ 418,089	$ 568,089	$ 130,000	**$ 250,000**	$ 120,000	92.31%
Accreditation Team (2)	684,412	446,359	687,159	739,810	**589,320**	(150,490)	(20.34%)
Other Professional Services (3)	2,356,323	1,804,300	3,113,204	3,247,301	**2,776,264**	(471,037)	(14.51%)
Total	$ 3,406,037	$ 2,668,748	$ 4,368,452	$ 4,117,111	**$ 3,615,584**	$ (501,527)	(12.18%)

(1) The outside legal counsel budget reflects anticipated legal expenses to assist the Legal Division in: (1) needed expertise to assist in complex and specialized regulatory issues and projects, (2) litigation and subpoenas, (3) labor and employment issues, (4) corporate matters relating to contracts, tax, and benefits, and (5) amicus briefs filed at the request of NAIC members. The overage in 2009 is largely related to use of legal services for projects such as Securities Exchange Commission litigation, reinsurance modernization framework, regulatory modernization, and ongoing business and employment matters. The 2010 budget increase reflects increased rates charged for legal services and anticipates the continued need for legal counsel to support specialized regulatory issues and projects in 2010.

(2) In June 1990, the Internal Administration (EX1) Subcommittee authorized the NAIC to compensate independent teams who conduct reviews of insurance departments seeking accreditation under the NAIC Financial Regulation Standards and Accreditation program. The budget is composed assuming the number of examinations to be conducted, which fluctuates from year to year. The 2010 budget assumes nine states undergoing full reviews, compared to 12 reviews in 2009; 13 states undergoing pre-reviews, down from 15 in 2009; and two state rereviews, compared to one in the 2009 budget. This line also includes funding for a bi-annual training session, hosted for the independent team members, to discuss program guidelines, standards, review team practices, changes to the program and NAIC tools used by members to comply with the program.

(3) The 2010 budget for other professional services includes: (1) $92,940 in fees for the administration, lease, and oversight of the co-location facility and services and (2) $99,980 in consulting for technology performance monitoring and validation, all budgeted in the technology systems and support areas.

With regard to business operations, the 2010 budget includes: (1) $196,110 in service and investment management fees to the NAIC's investment managers and advisor; (2) $47,406 in annual financial statement audit fees; (3) $73,187 in banking fees; (4) $13,974 in facility services; (5) $46,200 for the NAIC's commercial insurance brokerage fees; (6) $22,000 for enhancements to the Human Resources system to enable employees to self register during annual benefit enrollment periods; and (7) $40,000 for outside consultation regarding the renewal of the NAIC/NIPR Services Agreement effective January 1, 2011.

Other professional services expenses also include (1) $621,940 in public relations consulting services to support consumer awareness and education media campaigns; (2) $36,125 for expense related to registration software licenses fees, transportation, facilities, and photographers for NAIC National Meetings and the Commissioners Conference, all budgeted under services to members.

BUDGET ITEM: Professional Services (continued from E6a)

Finally, the 2010 budget includes (1) $30,000 in digital rights security services in support of the NAIC's online publications order and delivery system; (2) $28,221 in services fees to the editor of the Journal of Insurance Regulation; (3) $609,600 for consulting assistance from the NAIC's business partner in State Based Systems (SBS) related to existing SBS state support and new SBS implementations and enhancements; and (4) $711,800 in royalty payments to the SBS business partner, budgeted in the Products and Services area and (5) $63,000 in programming services for the development of a replacement system for managing centralized market conduct annual statement data (See Fiscal Impact 1), budgeted in the Market Regulatory Services area.

The 2009 variance from budget is related primarily to (1) the reduction in support services for state and federal liaison activities in the Washington, D.C. office and (2) the change in location for the NAIC 2009 Winter National Meeting to a site that does not require the use of a convention center. The continued decrease in expense in 2010 relates to (1) the completion of 2009 projects requiring professional consulting services, (2) the reduction in support services for state and federal liaison activities, (3) the elimination of one NAIC National Meeting in 2010, (4) savings in the production of the NAIC's Daily Newswire services, (5) a reduction in fees related to the NAIC's investment portfolio directly associated with the decline in portfolio values, and (6) the completion of the State Producer Licensing Reengineering (SPLR) project and related savings in SPLR consulting services. These decreases are offset by increases in royalty payments to the NAIC's SBS business partner, due to increased SBS transaction processing and related SBS revenues, and the engagement of a third party consultant to review the NAIC/NIPR Services and License Agreement working toward the renewal of this agreement on January 1, 2011.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Legal (1)		$ 250,000				
Accreditation Team (2)		589,320				
Other Professional Services (3)	$ 195,920	453,668	$ 666,305		$ 65,100	$ 1,395,271
Total	$ 195,920	$ 1,292,988	$ 666,305	$ -	$ 65,100	$ 1,395,271

E6b: Professional Services

BUDGET ITEM: Computer Services

Item Description: Fees paid to outside providers for computer processing, payroll processing, credit card processing, and SVO security data feeds.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	2010 Budget	Increase (Decrease)	Percentage
Database Network (1)	$ 713,860	$ 262,866	$ 521,118	$ 509,308	**$ 598,788**	$ 89,480	17.57%
SVO (2)	569,440	328,009	623,809	590,274	**637,517**	47,243	8.00%
Credit Card Fees (3)	193,981	116,737	293,143	156,480	**247,415**	90,935	58.11%
Other (4)	180,375	85,975	174,672	176,670	**189,202**	12,532	7.09%
Total	$ 1,657,656	$ 793,587	$ 1,612,742	$ 1,432,732	**$ 1,672,922**	$ 240,190	16.76%

(1) Database Network expenses include (1) Internet connectivity ($107,940); (2) SVO Office and Executive Office circuits and backups to Kansas City ($128,472); (3) telephone ($69,605); (4) wireless devices ($95,616); and (5) data line circuits for data replication and network synchronization between the NAIC's co-location site and the Central Office data center in Kansas City ($197,100). The increase in 2010 is primarily related to the added backup telephone circuits between Washington D.C., New York and Kansas City and an increase in the number of wireless devices during 2009, some of which are also impacting the 2009 expense.

(2) SVO expense represents the purchase of NRSRO rating data feeds used to provide SVO designations for NRSRO-rated securities, including municipal bond pricing, corporate bond pricing, Bloomberg, Moody's and CUSIP. These data feeds are also used to populate the AVS database with NRSRO ratings for use by AVS customers in preparing certain investment schedules. While an extensive analysis of these services is conducted annually, the expenditures in this budget line continue to increase due to rate increases for data used by the SVO.

(3) Credit card fees include charges from vendors and banks to settle NAIC customer credit card transactions and deposit funds in the NAIC bank account. The overage in 2009 is the result of unexpected renewals processed through the SBS system, which is offset by unbudgeted revenue. Additionally, the July 1, 2009 release of Account Manager, the NAIC's online publication order and delivery system via the NAIC website, makes all NAIC publications available for download in electronic format, leading to an increased use of credit cards to collect fees at the point of sale. A credit card fee reduction has been negotiated with the NAIC's vendor effective July 1, 2009.

(4) Other computer services included in the 2010 budget include (1) the cost of outsourcing the preparation of NAIC's payroll ($29,700); (2) fees for processing online registrations for national meetings ($12,300); (3) CUSIP and ISID royalty payments ($115,100); and (4) FOLIO royalty payments ($16,400). These royalties are paid as a result of NAIC sales of products that leverage CUSIP, ISID, and FOLIO data and/or technology. The increase in 2010 is related to the engagement of a new payroll service based on a request for proposal process for payroll services conducted in early 2009, with conversion to the new system completed in July 2009.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Database Network (1)	$ 598,788					
SVO (2)				$ 637,517		
Credit Card Fees (3)		$ 19,560	$ 52,677	30,000		$ 145,178
Other (4)		45,184	9,084			134,934
Total	$ 598,788	$ 64,744	$ 61,761	$ 667,517	$ -	$ 280,112

E7b: Computer Services

BUDGET ITEM: Travel

Item Description: Includes airfares, lodging, meals, and incidental travel expenses incurred by the NAIC staff, commissioners and their representatives, funded consumer representatives, and analyst team participants. The trade show expense line includes registration and incidental fees charged by organizations for participation in their trade show as well as travel cost for NAIC staff members to the selected trade show sites.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Staff Travel (1)	$ 917,841	$ 439,682	$ 830,458	$ 973,248	**$ 801,443**	$ (171,805)	(17.65%)
Non-Staff Travel (2)	206,449	222,004	480,548	562,033	**656,065**	94,032	16.73%
Sales and Marketing Travel (3)	105,832	37,949	83,955	127,380	**119,199**	(8,181)	(6.42%)
National Meetings Travel (4)	50,930	29,557	52,904	55,937	**44,869**	(11,068)	(19.79%)
Commissioner Travel (5)	697,425	365,966	745,095	662,335	**660,148**	(2,187)	(0.33%)
International Travel (6)	606,660	190,995	443,898	476,462	**558,352**	81,890	17.19%
Consumer Funding (7)	98,183	60,733	112,733	120,000	**120,000**	-	0.00%
Analyst Team System Expenses (8)	71,914	65,469	67,338	63,688	**73,421**	9,733	15.28%
Total	$ 2,755,234	$ 1,412,355	$ 2,816,929	$ 3,041,083	**$ 3,033,497**	$ (7,586)	(0.25%)

(1) Staff travel includes travel to NAIC national meetings for committee staff support, interim committee meetings, NAIC education programs, state visits, and travel to professional seminars and training programs. The majority of the savings in staff travel in 2009 relates to the elimination of the majority of professional training related travel and other non-critical business travel as part of the cost reduction measures implemented in June 2009. Also contributing to 2009 savings is the location change for the NAIC 2009 Winter National Meeting generating significant airfare savings. The significant decrease in 2010 is the result of the change in national meeting format from four to three meetings per year, as well as continued efforts to reduce staff travel where possible.

(2) The non-staff travel budget includes (1) $98,100 for travel expenses for international regulators as part of the international internship program; (2) $139,620 for NAIC-sponsored travel expenses for regulators attending the 2010 NAIC E-Regulation Conference; (3) $168,000 for travel expenses for state legislators to attend a 2010 NAIC National Meeting; (4) $36,825 for SBS Product Steering Committee meetings; (5) $60,325 for the annual Public Information Officer (PIO) Forum; (6) $33,400 for hosting Valuation of Securities Task Force meetings at the SVO Office in New York; (7) $8,700 for costs associated with working group support for the Regulatory Services Division; (8) $20,000 for an NAIC-hosted IAIS Reinsurance Subcommittee meeting in 2010; (9) $22,100 for the Academic Symposium on U.S. Insurance Regulation; and (10) $51,375 for costs associated with IAIS and legislative liaison meetings at the NAIC Executive Offices in Washington, D.C. and at NAIC national meetings in 2010. The remainder is related to general non-staff travel in the other divisions of the NAIC.

The 2009 projected variance is related to less than full utilization of funds available to regulators to attending the 2009 NAIC E-Regulation Conference as well as the presentation of the 2009 PIO Forum as a webinar rather than hosting the event in the Kansas City office, all in an effort to accommodate regulators who would be unable to attend in 2009 due to state travel restrictions. The increase in the budget for 2010 is relates to the addition of IAIS and legislative liaison meetings in 2010.

(3) Sales and marketing travel represents travel and trade show expenses related to the sale of NAIC publications, insurance data products, SERFF, SBS, and NAIC Education and Training programs. The decrease in 2009 reflects efforts to reduce 2009 spending, some of which will continue in to 2010.

BUDGET ITEM: Travel (continued from E8a)

(4) Travel for national meetings represents the cost for administrative support staff (e.g., Commissioner Services) at national meetings. The decrease in 2010 is related to the elimination of one national meeting in 2010.

(5) Commissioner travel includes (1) $116,000 in domestic travel for Commissioners and senior regulators to participate in such events as Congressional testimony, NAIC Officer meetings, and speaking engagements; (2) $36,000 for Executive (EX) Committee and Internal Administration (EX1) Subcommittee interim meetings; (3) $112,000 for Commissioner travel to two interim meetings of the membership in 2010; (4) $252,000 to sponsor Commissioner travel to all 2010 NAIC national meetings; and (5) $124,390 to fund Commissioner travel to the annual Commissioners Conference held for strategic planning purposes at the beginning of each year; and (6) $17,900 for the Academic Symposium on U.S. Insurance Regulation. The projected overage in 2009 relates to Commissioner travel expenses associated with the membership meeting in August 2009 and the 2009 Academic Symposium on U.S. Insurance Regulation that were not anticipated in the 2009 budget. The decrease in the 2010 budget is due to the elimination of one national meeting in 2010, resulting in a $48,000 reduction in funding for Commissioner travel to NAIC national meetings.

(6) International travel includes $250,000 for regulator travel to participate in meetings such as the IAIS, the Organization for Economic Cooperation and Development (OECD), the International Accounting Standards Board (IASB), and the Joint Forum, among many others. The remainder is for NAIC staff travel to support regulators during certain international regulatory meetings. The decrease in 2009 is related to openings in several international policy related positions throughout the year. The 2010 budget increase demonstrates the NAIC's continued commitment to a leadership role in the IAIS and participation in other international regulatory meetings. The 2010 increase also includes the addition of employees to the Center for Insurance Policy and Research who will be involved in directly supporting IAIS.

(7) The consumer funding budget is allocated for the NAIC's funded consumer representatives to sponsor national meeting travel participation in NAIC teleconferences and luncheons for the NAIC Consumer Board of Trustees. Although the number of national meetings will be reduced from four to three in 2010, there is no change in the funding level for the NAIC funded consumer representatives.

(8) Analyst Team System (ATS) expenses represent (1) travel and transportation expenses for up to 17 state regulators to participate in two sessions of the annual ATS project; (2) salaries paid for regulators from those states that require salary reimbursement for analyst participation in this program, and (3) a minor amount of miscellaneous expenses to support the project. Participating regulator salaries are reimbursed at a rate not to exceed the Senior Insurance Examiner CFE rate. The increase in 2010 is related to an anticipated increase in hotel costs for team members and the participation by one additional team member whose state requires salary reimbursement from the NAIC as a condition of their participation.

2010 Budget by Area Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Staff Travel (1)	$ 51,582	$ 146,476	$ 227,176	$ 112,179	$ 112,838	$ 151,192
Non-Staff Travel (2)	500	195,700	131,700	45,258	102,742	180,165
Sales and Marketing Travel (3)			7,802			111,397
National Meetings Travel (4)			44,869			
Commissioner Travel (5)		533,900	124,390		1,858	
International Travel (6)		255,000	156,885	110,306	36,161	
Consumer Funding (7)					120,000	
Analyst Team System Expenses (8)				73,421		
Total	$ 52,082	$ 1,131,076	$ 692,822	$ 341,164	$ 373,599	$ 442,754

E8b: Travel

BUDGET ITEM: Occupancy

Item Description: Includes all rent, building maintenance fees, cleaning and warehouse fees incurred by the three NAIC offices.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Rent (1)	$4,411,021	$2,321,699	$ 4,784,420	$ 4,483,757	**$ 4,836,944**	$ 353,187	7.88%
Utilities & Parking (2)	544,827	271,394	562,133	560,406	**585,861**	25,455	4.54%
Warehouse (3)	97,128	16,880	35,372	46,563	**34,970**	(11,593)	(24.90%)
Total	$ 5,052,976	$ 2,609,973	$ 5,381,925	$ 5,090,726	**$ 5,457,775**	$ 367,049	7.21%

(1) Base rent for the Kansas City leasehold is $285,866 monthly for a 132,518 square foot office space at 2301 McGee Street ($25.88 per square foot average) with a lease expiration of January 31, 2012. Due to the approaching expiration date of this lease, a brokerage firm has been engaged to pursue options with regard to the Central Office lease in 2012, including careful evaluation of opportunities to reduce the cost of the lease in the current real estate market.

Base rent for the Washington, D.C. office space in the Hall of the States is $28,801 monthly for a 7,212 square foot office space ($47.92 per square foot). The current lease expires in January 2014. The NAIC expanded this leasehold in 2008 to include an additional 2,703 square feet of office space at $11,069 per month ($49.14 per square foot) to accommodate the transition of the Washington D.C. office to the NAIC Executive Office and the addition of Center for Insurance Policy and Research support staff.

Base rent for the Securities Valuation Office (SVO) is $43,362 monthly for a 18,726 square foot office space ($27.79 per square foot average) and the lease expires in July 2014. The NAIC continues to benefit from incentives and abatement programs related to the July 2004 relocation of the New York office to the financial district after the destruction of 7 World Trade Center on September 11, 2001 including:

- **Industrial and Commercial Incentive Program** - This program offers an exemption from additional real estate assessments for capital improvements. The NAIC was accepted for this rebate program and reflects reduced rent expense for the SVO leasehold.

- **Lower Manhattan Commercial Revitalization Program** - This program offers a real estate property tax abatement for five years. This has benefitted the NAIC in the form of reduced operating costs charged by the landlord. The first abatement was received in February 2005 and expires in August 2009.

- **Lower Manhattan Energy Program** - This program represents 12 years of electrical usage rebates equal to 30% for years 1-8, 24% for year 9, 18% for year 10, 12% for year 11, and 6% for year 12. The landlord was accepted for this incentive program and began passing the applicable exemptions to the NAIC in the form of reduced operating costs in late 2005.

In accordance with Generally Accepted Accounting Principles (GAAP), the total cost of each lease is spread evenly throughout the life of the lease. The annual budget amount is arrived at by calculating the total cost of the lease including scheduled increases in rental payments and dividing that by the number of years covered by the lease.

BUDGET ITEM: Occupancy (continued from E9a)

The overage in 2009 and the increase in the 2010 budget are primarily due to anticipated property tax payments for the Kansas City leasehold, $222,679 in 2009 and $225,000 in 2010. The 10-year 100% real estate property tax abatement for the 2301 McGee building expired in 2009. During the 10-year abatement period, there was no tax on real estate improvements, only tax on the original land value. A 15-year tax abatement period runs from 2009-2024, during which there is a 50% tax on real estate improvements. Improvements are fully taxed beginning in 2025. The 2009 budget contemplated this expense would not be due until 2010. In fact, 2009 property taxes will be incurred and reported as expense in 2009. The 2009 projection and 2010 budget also include increases in the common area maintenance and operating costs for the Kansas City and Washington, D.C. leaseholds being passed from the landlord to the tenants.

(2) The increase in 2010 is related to an anticipated increase utility costs for all three offices. Parking costs are also budgeted to increase as a result of the addition of five staff positions in mid-2009, offset by a decrease in the number of intern positions in 2010.

(3) The decrease in warehouse storage costs for 2009, which carries forward into 2010, is related to the release of Account Manager, the NAIC's online publication order and delivery system, in July 2009. This application allows the NAIC to offer all publications, even the Accounting Practices and Procedures Manual in electronic and downloadable format, which reduces warehouse storage needs for hard copy publication inventory.

Description	Systems and Support	Business Operations	Services to Members	Solvency Services	Regulatory Services	and Services
Rent (1)		$ 3,737,948	$ 578,652	$ 520,344		
Utilities & Parking (2)	$ 150	383,816	29,400	172,495		
Warehouse (3)	8,152	15,868				$ 10,950
Total	$ 8,302	$ 4,137,632	$ 608,052	$ 692,839	$ -	$ 10,950

E9b: Occupancy

BUDGET ITEM: Equipment Rental and Maintenance

Item Description: Rental and maintenance fees for office equipment, hardware, and software, including personal computers, printers, copiers, etc.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Equipment Rental (1)	$ 214,518	$ 106,854	$ 208,534	$ 212,626	**$ 231,373**	$ 18,747	8.82%
National Meeting Equipment Rental (2)	5,259	6,357	7,466	17,514	**14,046**	(3,468)	(19.80%)
Equipment, Hardware & Software Maintenance (3)	2,428,517	1,215,564	2,399,557	2,451,826	**2,434,745**	(17,081)	(0.70%)
Total	$ 2,648,294	$ 1,328,775	$ 2,615,557	$ 2,681,966	**$ 2,680,164**	$ (1,802)	(0.07%)

(1) Equipment rental includes the cost to rent copiers for the NAIC copy centers and certain computer equipment and other rentals where a capital purchase is not as cost effective. The increase in expense for 2010 is related to the upgrade of copy equipment in the Kansas City office and the addition of a high speed black and white printer in the Washington D.C. office to support growing needs and additional employees, including the CIPR, in 2009 and 2010.

(2) The decrease in equipment rental costs related to national meetings is due to the change in location for the NAIC 2009 Winter National Meeting from Honolulu, eliminating the use of the convention center in December 2009, and the elimination of one national meeting in 2010.

(3) Equipment, hardware and software maintenance includes maintenance on hardware, software, and other equipment owned or rented by the NAIC. The NAIC generally secures maintenance and service agreements on the office equipment, hardware and software that have exceeded the initial warranty period when the cost and risk of equipment failures exceeds the cost of the service agreement. Examples of such include copiers, printers, computer hardware (e.g., routers, switches, servers, etc.) and support agreements for heavily used software products, among others. This budget request represents the cost to support existing projects, enhancements, and capital purchases, offset slightly by maintenance reductions on equipment planned for retirement in late 2009 and in to 2010. The 2009 variance is the result of efforts to reduce costs where possible and delays in 2009 capital spending, which in turn delay related maintenance expenditures. The decrease in 2010 is due to advances in technology that allow for the consolidation of servers and a general decrease in costs associated with the purchase of newer, more efficient equipment, some of which has already been experienced in 2009.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Equipment Rental (1)	$ 936	$ 198,932	$ 11,540	$ 19,965		
National Meeting Equipment Rental (2)			14,046			
Equipment, Hardware & Software Maintenance (3)	2,257,543	176,902	300			
Total	$ 2,258,479	$ 375,834	$ 25,886	$ 19,965	$ -	$ -

E10: Equipment Rental and Maintenance

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation for all furniture and equipment owned as of June 30, 2009 with projected purchases through December 31, 2009, and depreciation for budgeted 2010 capital outlays.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Depreciation (1)	$ 3,280,704	$ 1,577,129	$ 3,015,846	$ 3,048,797	**$ 2,231,302**	$ (817,495)	(26.81%)
Amortization (2)	1,486,629	776,394	1,597,522	1,666,031	**1,265,318**	(400,713)	(24.05%)
Total	$ 4,767,333	$ 2,353,523	$ 4,613,368	$ 4,714,828	**$ 3,496,620**	$ (1,218,208)	(25.84%)

(1) Depreciation is calculated on a straight-line basis over the useful life of capital assets owned by the NAIC, which is five years for furniture and equipment, three years for computer hardware and software, and four years for personal computers. The amount of depreciation expense in a given year is related to the purchase of capital assets in the current and preceding years. The decrease in budget for 2010 is directly related to the purchasing patterns of capital assets. Portions of assets purchased in 2006 of $2.5 million and in 2007 of $4.2 million, related to the implementation of the State Producer Licensing Reengineering (SPLR) project, will become fully depreciated in 2010. Capital purchasing since 2006 and 2007 have reduced significantly, representing declines to $2.7 million in 2009 and $1.5 million in 2010, which drives the net reduction in depreciation expense in to 2010.

(2) Amortization is also computed on a straight-line basis for those capitalized assets such as leasehold improvements and consulting services on major computer application projects and system upgrades. The useful lives of these assets are approximately ten years, but are assigned to specific assets based on each asset's useful life. Amoritization expense will fall short of budget in 2009 due to (1) certain components of the SPLR project that will be promoted to production later than anticipated and (2) less than expected leasehold capital improvement to accomodate the transition of the NAIC Executive Office and the addition of Center for Insurance Policy and Research support staff. The Financial Data Repository (FDR), which was placed in service in February 2000, will complete its 10-year amortization cycle in February 2010 and produce a sharp decline in 2010 amortization expense.

See Exhibit E11-One and Exhibit E11-Two for details of proposed capital purchases with a cost $25,000 or greater.

	2010 Budget	Depreciation Expense	2009 Budget	2009 Projection
Budget Requests:				
Furniture and Equipment	$ 13,000		$ 27,000	$ 16,698
Computer Hardware	1,252,289		1,115,533	1,032,174
Computer Software	268,310		345,703	264,645
Total Requests	$ 1,533,599	$ 316,572	$ 1,488,236	$ 1,313,517
Depreciation on Prior Year Purchases		1,914,730		
Total Depreciation		$ 2,231,302		

	2010 Budget	Amortization Expense	2009 Budget	2009 Projection
Budget Requests:				
Leasehold Improvements			$ 170,000	$ 90,000
Consulting			1,059,762	953,629
Total Requests	$ -		$ 1,229,762	$ 1,043,629
Amortization on Prior Year Expenditures		1,265,318		
Total Amortization		$ 1,265,318		

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Depreciation (1)		$ 2,231,302				
Amortization (2)		1,265,318				
Total	$ -	$ 3,496,620	$ -	$ -	$ -	$ -

E11b: Depreciation and Amortization

Exhibit E11-One

2010 CAPITAL EXPENDITURES

Description	Furniture and Equipment Qty	Furniture and Equipment Cost	Furniture and Equipment Total	Computer Hardware Qty	Computer Hardware Cost	Computer Hardware Total	Computer Software Qty	Computer Software Cost	Computer Software Total	Total Cost
EMC DASD Growth				1	$ 14,523	$ 14,523				$ 14,523
HP DASD Growth				1	199,275	199,275				199,275
XP Storage Array (12TB)				1	210,697	210,697				210,697
Itanium Blades				4	8,506	34,024				34,024
Blade Enclosure				1	42,459	42,459				42,459
HP Memory Growth				1	16,000	16,000				16,000
Upgrade Internet Firewalls				4	22,097	88,388				88,388
Upgrade National Meeting Wi-Fi Gear				1	15,840	15,840				15,840
Upgrade Fourth Floor Switch to 3750 Stack				4	5,522	22,088				22,088
Fiber Channel over Ethernet Implementation				1	105,530	105,530				105,530
Communication Racks in Data Center				1	9,000	9,000				9,000
Upgrade LogLogic Syslog Appliance				1	24,000	24,000				24,000
Upgrade Power Supplies in Core Switch				4	3,250	13,000				13,000
3750 Switches				4	3,897	15,588				15,588
Video Conference Units (DC & KC)				2	12,320	24,640				24,640
Blade Servers				4	4,800	19,200				19,200
Data Center UPS				1	80,000	80,000				80,000
Proliant DL360 G6 National Meeting Vdesktop server				1	4,800	4,800				4,800
Desktop PC's for Staff				160	1,040	166,400				166,400
Laptops Loaner				6	1,520	9,120				9,120
Laptops Staff				3	1,695	5,085				5,085
HP Color MFP Printer				2	8,500	17,000				17,000
HP D2D Solution (D2D 4324)				2	45,000	90,000				90,000
HP Network Printer				4	3,500	14,000				14,000
Co-Location Voice Gateway				1	11,632	11,632				11,632
Director Furniture Suite-SVO	1	$ 13,000	$ 13,000							13,000
HP DASD Growth (6TB Usable)							1	$ 8,241	$ 8,241	8,241
Blade Enclosure							1	3,283	3,283	3,283
Oracle RAC Licenses							9	11,500	103,500	103,500
XP Storage Array (12TB)							1	37,426	37,426	37,426
VMWare ESX server licenses - 6 CPU's							6	4,700	28,200	28,200
VMWare SRM server licenses - 6 CPU's							6	2,690	16,140	16,140
IBM TSM Manager							1	15,120	15,120	15,120
Convert Standard IPCC licenses (25) to Premium							25	1,184	29,600	29,600
WebLogic Server License							1	26,800	26,800	26,800
			$ 13,000			$ 1,252,289			$ 268,310	$ 1,533,599

Exhibit E11-Two

2010 Proposed Capital Expenditures
Unit Cost $25,000 or Greater

Maintaining the technology infrastructure falls into four primary categories (cost or labor saving, high availability or disaster recovery, technology trend and useful life). A technology trend is not as obvious as the other three areas. A technology trend is a project that would better utilize an existing resource (e.g., upgrade the fiber infrastructure from 2GB to 4GB because recent server purchases come standard with 4GB interfaces) or to address a current issue (e.g., moving to LTO4 devices to get more data on a tape and survive within existing backup windows).

Cost or Labor Saving

- **XP Storage Array (12TB) ($210,697)**[1] – This is the beginning of a two year plan to replace the current XP 12000 storage array at the primary data center. The industry standard for the useful life of a storage array is three years. The current XP12000 will be over five years old by the time this migration is complete. The existing storage array represents approximately 24TB of storage. Discounting special projects or new initiatives the average annual growth for these storage arrays has been approximately 4TB per year. The warranty uplift on the original purchase for the existing storage array expired in 2008. The annual maintenance cost for 2010 is $105,000. In 2011 and 2012 this maintenance number will increase as the warranty uplift for additional components added in 2007 and 2008 also expire. It is estimated that the annual cost for the current array will reach $125,000 annually by 2012. While the XP 12000 is a high end storage array meeting our performance needs it is not being updated by HP to support emerging technologies that the NAIC hopes to deploy in the next three years. The proposed XP 24000 storage array was released by HP in 2007. This storage array maintains the same highly redundant architecture as its predecessors while increasing performance for both read access (3.1X) and write access (6.2X). The XP 24000 also supports a wider variety of disk drives including SATA (i.e. low cost devices for seldom used data) and solid state drives (i.e. expensive but fastest access today for demanding applications) allowing us to support multiple tiers of storage in a single array. This acquisition will replace 50% of the current XP storage at the NAIC's primary data center and will carry an annual maintenance cost of $17,376. In 2011 additional storage will be added to this array to allow for the decommissioning of the current XP12000. It is estimated that the annual support cost for the XP24000 array will reach approximately $32,000 annually by 2012.

Description	**2010**	**2011**	**2012**
Depreciation Expense	$17,559	$70,236	$70,236
Maintenance Savings	($21,906)	($87,624)	($93,000)
Net Savings	($4,347)	($17,388)	($22,764)

High Availability or Disaster Recovery

- **HP D2D Solution (D2D 4324) ($90,000)**[2] – In 2009, the Enterprise Solution team was given the task to map out a three year strategy to improve the overall architecture for our backups. This line item will complete the three year strategy by expanding two Hewlett Packard D2D 4324 appliances purchased in late 2009 at a cost of approximately $210,000. This additional expense is to size these appliances to store three years of our backups. These de-duplication boxes will allow for the migration of the current tape based backup solution to a more robust and reliable disk based solution. This will improve overall performance, reduce backup times an estimated 75%, reduce costs that are associated with tape provide faster restore speeds, and reduce storage required for backups since we will de-duped or compress the data. This technology change will save an estimated $53,892 in annual costs for tapes, off-site storage and backup client software maintenance (i.e. Veritas).

Exhibit E11-Two

Technology Trend

- **Fiber Channel over Ethernet (FCoE) Implementation ($105,530)**[3] – In 2005 the NAIC deployed Cisco Fiber Directors in its primary data center to consolidate the then isolated storage networks deployed on individual fiber switches. At that time the standard speed for storage networks was 2GB. Since that time the industry has seen expansion to 4GB and 8GB but there is also an emerging technology to combine storage and data networks over the same physical devices at speeds of 10GB and beyond. This technology is commonly referred to as Fiber Channel Over Ethernet or FCoE. Since the cost to upgrade the existing fiber channel infrastructure to 4GB is equivalent to the cost of deploy 10GB FCoE the adoption of a newer standard seems logical. The 4GB fiber channel does not have to be upgraded but additional fiber ports are necessary. Since the existing switches are fully populated the existing port cards must be exchanged for newer more dense cards (i.e. more ports per card). These new port cards would operate at a minimum of 4 GB because they no longer manufacturer 2GB cards. Several of the fiber adapters in the newer servers could run at 4GB today but the 2GB switch ports will not support this speed. This line item represents the amount needed to begin the build out of a converged network supporting both data and storage on six of our largest database servers.

Useful Life

- **HP DASD Growth ($199,275)** – This provides 6.5TB of storage for annual growth of enterprise databases, applications, messaging, file sharing, and PeopleSoft environments. Estimates are based on a 24 month historical growth rate whenever possible. For environments existing for less than 24 months, growth estimates are reached by working with the support group for the application. All of these environments require a higher level of performance and are therefore hosted on a high end enterprise storage array. This array has a high level of redundancy, scalability, and performance. With the addition of the User Assurance (UA) security realm there are now four non-production environments being supported across the enterprise. This has an impact to the annual growth rate since non-production environments are either a subset by percentage (i.e. 33%) or full size compared to production. As production data continues to grow there is a rippling effect to the non-production areas. Listed below are the breakouts for the 6.5TB of growth for both production and non-production environments. Assuming success of key projects in 2009 this entire cost will be offset by space reclamation on the current arrays.

Exhibit E11-Two

Environment	Growth in GB
Production Financial & Market Database Environments	587
Dvlp / QA Financial & Market Database Environments	350
Production SERFF Database Environments	787
Dvlp / QA SERFF Database Environments	38
Production Producer Licensing Database Environments	823
Dvlp / QA Producer Licensing Database Environments	277
Production Application Environments	220
Dvlp / QA Application Environments	345
Messaging	108
File Sharing	290
Production PeopleSoft Environments	180
Dvlp / QA PeopleSoft Environments	184
Production SPL Database Environments	805
Dvlp / QA SPL Database Environments	366
Production SBS Database Environments	438
Dvlp / QA SBS Database Environments	396
Production SBS Attachment Project	204
Dvlp / QA SBS Attachment Project	102
Total	6,500

- **Blade Enclosure ($42,459)**[4] – The NAIC began deploying blade servers in 2008 as part of a server consolidation effort. Each server blade purchased has to be installed in a blade enclosure for connectivity to power, network and storage. With the expansion of blade servers in 2009 there is not enough capacity remaining to support the four blade servers in the 2010 budget. This chassis will support these four servers with remaining capacity for another five full height server blades or ten half height server blades. This enclosure also allows for an upgrade in technology with the planned move to Fiber Channel over Ethernet (FCoE). This new enclosure will be configured with FCoE interfaces capable of 10GB speeds to work with the new storage array and switches in the 2010 budget.

- **Data Center UPS ($80,000)** – The Data Center UPS unit is going on its 15th year. The company that manufactured the product has warned us that they may not be able to renew the maintenance due to the age of the hardware and the lack of parts for the old UPS. The UPS unit allows us to provide continual power to the Data Center during power surges or power outages. The UPS will detect a power outage or surge and go to battery. The UPS powers the Data Center until the motor generator takes over. This crucial piece of equipment has been stretched to its full life and must now be replaced to continue to provide the Data Center with uninterruptible power during surges or outages. Every two to three years the UPS shows its age by losing a cooling fan which is replaced using the current maintenance provider. Also on

Exhibit E11-Two

last inspection the AC/DC capacitors were showing wear and replacement has been put off due to this capital expenditure request.

- **XP Storage Array (12TB) ($37,426) –** Storage on the XP 24000 requires tier-based licensing for Secure LUN Manager. This required software allows management of the storage. For example, access lists are established at the array level that masks what storage can be seen by multiple servers that are connected to this device.

#1 Driven primarily by maintenance cost beyond year three but has a useful life consideration (e.g., 3.1X read speeds) and technology trend benefit (e.g., Fiber Channel over Ethernet enabled).

#2 Today with tape technology our backup windows are full leaving us no room for problems and the inability to restore our largest databases within 24 hours. Therefore, this solution is primarily for high availability and disaster recovery. The de-duplication technology will allow the NAIC to perform backups on-line at significantly increased speeds and will ultimately eliminate tape drives and reduce warehouse storage.

#3 Advances in technology (i.e. 10GB going to 40GB in the next 18 months) is the most significant reason for this change. However, to add additional fiber ports or increase current fiber speeds from 2GB to 4GB requires the same outlay.

#4 To continue the NAIC's move toward blade technology the additional rack capacity is needed but the technology advancements deliver Fiber Channel over Ethernet natively in the chassis.

BUDGET ITEM: Insurance

Item Description: Includes expenses for all general business and liability insurance policies owned by the NAIC.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
General Business Insurance (1)	$ 290,129	$ 138,709	$ 273,766	$ 294,489	**$ 280,918**	$ (13,571)	(4.61%)
Professional Liability (2)	93,965	48,074	96,148	99,353	**99,994**	641	0.65%
Errors and Omissions (3)	54,036	24,824	51,582	49,980	**$55,656**	5,676	11.36%
Total	$ 438,130	$ 211,607	$ 421,496	$ 443,822	**$ 436,568**	$ (7,254)	(1.63%)

(1) The May 2009 renewal of general business insurance coverages policies resulted in a substantial savings based reduced rates for workers compensation, privacy protection, and property coverages. The 2010 budget assumes an increase of 6% over existing coverages and premiums at the May 2010 renewal based on counsel from the NAIC's commercial insurance broker.

(2) The increase in professional liability insurance coverages at the May 2009 renewal was slightly less than the 5% projection included in the 2009 budget. The 2010 budget assumes an increase of 6% over existing coverages and premiums at the May 2010 renewal.

(3) The renewal of errors and omission insurance coverage at the May 2009 renewal was slightly higher than the 5% assumption in the 2009 budget. The 2010 budget assumes an increase of 6% over existing coverages and premiums at the May 2010 renewal.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
General Business Insurance (1)		$ 280,918				
Professional Liability (2)		99,994				
Errors and Omissions (3)		55,656				
Total	$ -	$ 436,568	$ -	$ -	$ -	$ -

E12: Insurance

BUDGET ITEM: Telephone

Item Description: Includes conference calls and local and long-distance charges for staff, the NAIC Officers, and at national meetings.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Telephone (1)	$ 466,104	$ 220,123	$ 416,230	$ 348,733	**$ 368,857**	$ 20,124	5.77%

(1) The increase in telephone expense in 2009 is primarily due to increased committee activity, the formation of new working groups and an increased demand for SERFF tutorials. These increases, as well as assumed growth in teleconference costs as a result of reduced meeting schedule in 2010, are included in the 2010 budget, offset slightly by telephone charges related to the NAIC Winter National Meeting that will not be held in 2010.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Telephone (1)	$ 34,655	$ 46,170	$ 117,475	$ 72,605	$ 60,574	$ 37,378

E13: Telephone

BUDGET ITEM: Supplies

Item Description: Includes computer hardware and software and furniture and equipment purchases under $2,000, computer supplies, copy paper, stationery, perforated invoice paper, business cards, and other supplies.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Copier Supplies (1)	$ 111,748	$ 55,740	$ 100,940	$ 100,000	**$ 107,196**	$ 7,196	7.20%
Other Supplies (2)	309,493	116,692	228,153	266,769	**215,967**	(50,802)	(19.04%)
Non-Capital Equipment (3)	135,049	127,733	160,371	157,024	**144,985**	(12,039)	(7.67%)
Total	$ 556,290	$ 300,165	$ 489,464	$ 523,793	**$ 468,148**	$ (55,645)	(10.62%)

(1) Copier supplies relates to paper, toner, and other supplies needed by the NAIC Copy Center for the preparation of committee materials for national and interim meetings, the printing of NAIC publications, materials, and a multitude of additional projects.

(2) Other supplies will decrease significantly in 2009 and in to 2010 due to a change to re-furbished toner supplies for NAIC printers and an overall reduction of certain computer supplies as a result of technology enhancements.

(3) Non-capital equipment purchases include minor software upgrades and purchases as well as minor office equipment and computer supplies needed to furnish staff members with the tools that are necessary to complete their assigned tasks. The decrease in 2010 is attributable to the completion of the upgrade of the operating system on all NAIC staff computers.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Copier Supplies (1)		$ 107,196				
Other Supplies (2)	$ 78,560	57,119	$ 26,821	$ 25,100	$ 3,996	$ 24,371
Non-Capital Equipment (3)	93,813	12,279	17,696		2,654	18,543
Total	$ 172,373	$ 176,594	$ 44,517	$ 25,100	$ 6,650	$ 42,914

E14: Supplies

BUDGET ITEM: Mail Services

Item Description: Includes meter mail, UPS, express, and other carrier charges.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Mail Services (1)	$ 319,272	$ 159,179	$ 303,823	$ 324,891	**$ 254,159**	$ (70,732)	(21.77%)

(1) The July 2009 release of Account Manager, the NAIC's online publication order and delivery system, allows the NAIC to offer all publications, even the Accounting Practices and Procedures Manual, in an electronic and downloadable format in an effort to eliminate the shipping costs in the delivery of products to the NAIC customers and generating a significant decrease in postage expense for the latter half of 2009 and in to 2010. In addition, the elimination of the NAIC Winter National Meeting reduces shipping costs by $40,500.

The NAIC will also promote the download of NAIC publications by members rather than the shipment of hard copy publications. By downloading the publication, NAIC members will receive orders in a more timely manner and in a more user-friendly format.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Mail Services (1)	$ 2,708	$ 29,817	$ 55,933	$ 11,504	$ 3,900	$ 150,297

E15: Mail Services

BUDGET ITEM: Reference Materials

Item Description: Includes costs for books, periodicals, and on-line reference services.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Reference Materials (1)	$ 336,668	$ 169,187	$ 348,777	$ 352,928	**$ 369,570**	$ 16,642	4.72%
Periodicals (2)	74,177	38,926	73,941	53,893	**75,484**	21,591	40.06%
Loose Leaf Services	25,511	10,554	25,984	19,967	**22,528**	2,561	12.83%
On-Line Researching (3)	126,589	51,347	85,896	99,195	**83,052**	(16,143)	(16.27%)
Total	$ 562,945	$ 270,014	$ 534,598	$ 525,983	**$ 550,634**	$ 24,651	4.69%

(1) Statistical reference materials include reference sources on CD-ROM and subscription services for resources used in performing research in the NAIC Research Library and Securities Valuation Office. The reference collection is a vital source of up-to-date information on insurance, business, finance and technology-related issues and supports the NAIC's fulfillment of research questions from the NAIC members, NAIC staff, and interested parties. The 2010 increase relates to the continued increase in the cost of reference materials for the Securities Valuation Office, offset by cost saving measures implemented in the NAIC Research Library.

(2) Periodicals are also used in performing the services of the NAIC Research Library and Securities Valuation Office among other divisions of the NAIC. Though resources are evaluated annually and consolidated or eliminated where possible, the expense for these services continues to rise due to rate increases experienced by the NAIC in 2009.

(3) The decrease in spending in this area since 2008 is the result of negotiations with providers for increased usage by NAIC staff, an ongoing assessment of the benefit provided by these resources, and an effort by NAIC staff to decrease costs in this area.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Reference Materials (1)	$ 1,995	$ 4,500	$ 70,804	$ 291,108		$ 1,163
Periodicals (2)			65,249	10,235		
Loose Leaf Services			22,528			
On-Line Researching (3)			83,052			
Total	$ 1,995	$ 4,500	$ 241,633	$ 301,343	$ -	$ 1,163

E16: Reference Materials

BUDGET ITEM: Printing and Production

Item Description: Outside costs incurred for printing books, subscription updates, CD-ROMs, marketing materials, the NAIC Annual Report, and other publications.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Publications (1)	$ 366,804	$ 104,578	185,571	$ 218,838	**$ 161,055**	(57,783)	(26.40%)
Outside Printing (2)	12,878	7,139	12,189	19,030	**15,700**	(3,330)	(17.50%)
Total	$ 379,682	$ 111,717	$ 197,760	$ 237,868	**$ 176,755**	$ (61,113)	(25.69%)

(1) Publications printing expense represents the cost of all publication inventory items sold, including the cost of special paper and other supplies used to produce a publication and the cost of external printing and binding services. The decrease in expense for 2009 and 2010 is directly attributable to the launch of Account Manager, the NAIC's online publication order and delivery system, in July 2009. This system, allowing for the electronic delivery of all NAIC publications to NAIC customers, is anticipated to significantly reduce NAIC production and inventory costs. The remaining printing costs are related to the printing of hard copy publications for members and continued inventory for customers desiring hard copy orders. The NAIC will also promote the download of NAIC publications by members rather than the shipment of hard copy publications. By downloading the publication, NAIC members will receive orders in a more timely manner and in a more user-friendly format.

(2) Outside printing includes the cost of printing the NAIC Annual Report, product catalogs, national meeting signage, and marketing materials that require outside printing due to size and paper requirements. Savings were achieved in 2009 by a reducing brochure and CD-ROM printing, which are anticipated to continue into 2010.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Publications (1)						$ 161,055
Outside Printing (2)		$ 2,000	$ 11,700			2,000
Total	$ -	$ 2,000	$ 11,700	$ -	$ -	$ 163,055

E17: Printing and Production

BUDGET ITEM: Meetings

Item Description: Outside costs that are directly related to conducting the Commissioners Conference and national, interim, and committee meetings that cannot be classified within other budget item categories.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Receptions (1)	$212,752	$ 116,162	$ 208,862	$ 261,825	**$ 122,208**	$ (139,617)	(53.32%)
Hotel Service (2)	511,315	374,437	730,161	547,088	**523,827**	(23,261)	(4.25%)
Reproductions (3)	81,460	49,229	93,164	89,484	**88,895**	(589)	(0.66%)
Audio-Visual Services (4)	382,602	198,973	393,973	394,000	**317,000**	(77,000)	(19.54%)
Interim Meetings (5)	61,887	53,817	129,199	103,996	**126,935**	22,939	22.06%
Total	$ 1,250,016	$ 792,618	$ 1,555,359	$ 1,396,393	**$ 1,178,865**	$ (217,528)	(15.58%)

(1) Reception expenses reflect the cost of food and beverage services and service charges for the NAIC's welcoming reception at national meetings. The decrease is due to efforts in 2010 to reduce entertainment and food and beverage costs, as a result of cost reduction cutting measures implemented in 2009.

(2) Hotel services includes the cost of (1) technicians and setup support, (2) electrical support, (3) regulator and staff breakfasts, lunches, breaks, and (4) transportation. The projected variance from the 2009 budget is due primarily to an anticipated cancellation penalty for the change in location of the Winter National Meeting. Additionally, reduced registrations for national meetings result in reduced hotel rebates due to lower room block reservations. The reduction in hotel services in to 2010 relates to the reduction from four to three national meetings in 2010.

(3) Though the number of national meetings will be reduced to three in 2010, the cost of reproductions or copy center services for the national meetings in 2010 are anticipated to remain consistent with the four meetings in 2009. The NAIC is under contract with an outside vendor to provide national meeting copy center services for a specified amount per year regardless of the number of meetings held.

(4) Audio visual services include the utilization, cost and set up fees for microphones, projectors, projection screens, etc., to facilitate meetings and deliver presentations. It also includes NAIC computer network connections in Commissioner Services at national meetings. The budgeted amount for these services are based on contractual amounts and/or price quotes from the selected national meeting sites. The decrease in 2010 is related to the elimination of one national meeting.

(5) The interim meeting budget variance in 2009 results from of an increase in the number of requests for 2009 interim meetings, as well as the addition of an August 2009 membership meeting, the July 2009 Academic Symposium on U.S. Insurance Reguation, and an unanticipated IAIS Reinsurance Subcommittee meeting. The 2010 budget anticipates a 30% increase in interim meetings, assuming the need for more interim meetings due to the reduction of the national meeting schedule in 2010.

Year	Spring	Summer	Fall	Winter
2010	Denver	Seattle	Washington D.C.	
2009	San Diego	Minneapolis	Washington D.C.	San Francisco
2008	Orlando	San Francisco	Washington D.C.	Dallas
2007	New York	San Francisco	Washington D.C.	Houston
2006	Orlando	Washington, DC	St. Louis	San Antonio

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Receptions (1)			$ 122,208			
Hotel Service (2)			523,827			
Reproductions (3)			88,895			
Audio-Visual Services (4)			317,000			
Interim Meetings (5)			126,935			
Total	$ -	$ -	$ 1,178,865	$ -	$ -	$ -

E18b: National and Interim Meetings

BUDGET ITEM: Education and Training

Item Description: Expenses incurred by the NAIC for education programs.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	2010 Budget	Increase (Decrease)	Percentage
Commissioners Forum (4)	$ 30,196		$ 24,822	$ 26,401		$ (26,401)	(100.00%)
Financial Examiners (4)	6,938	$ 5,252	5,252	9,045		(9,045)	(100.00%)
Legal CLE Workshops (2)	12,845	(3,070)	13,340	26,005	$ **15,425**	(10,580)	(40.68%)
Regulation for Solvency (9)	3,650	(300)	2,832	4,015	**5,249**	1,234	30.73%
Surplus Lines Regulation (10)	(5,012)				**(3,762)**	(3,762)	100.00%
HMO Annual Statement (4)	4,513						
P & C Annual Statement (2)			1,385	16,523	**5,916**	(10,607)	100.00%
Advanced Fraud (2)	8,230	8,887	8,887	17,234	**10,152**	(7,082)	(41.09%)
Onsite Programs (5)	6,806	2,348	4,113	4,000	**6,000**	2,000	50.00%
Market Conduct Examiners Handbook (2)	6,761		2,647	11,798	**4,794**	(7,004)	(59.37%)
Statutory Accounting Principles (3)	7,035		7,053	10,027		(10,027)	(100.00%)
IMR/AVR Online (3)			5,089	5,089		(5,089)	(100.00%)
International Issues Conference (1)		25,312	25,312	22,613	**31,881**	9,268	40.99%
Online Investment Schedules (2)	10,820		9,282	9,282	**5,784**	(3,498)	(37.69%)
Online Introduction To Financial Regulation (9)	13,495		14,639	14,639	**12,731**	(1,908)	(13.03%)
Online ISQ Training (9)	1,484		4,527	5,184	**2,944**	(2,240)	(43.21%)
Online Schedule P	5,930		4,208	4,208	**3,737**	(471)	(11.19%)
Online Core Legal Issues (9)	3,324	2,791	4,686	3,786	**2,286**	(1,500)	(39.62%)
Online Reinsurance (2)	8,129		7,291	7,291	**4,047**	(3,244)	(44.49%)
Current Legal Issues (4)	8,603						
Online Health Annual Statement Preparation	13,429	(1,260)	6,523	7,783	**7,276**	(507)	(6.51%)
Regional Market Conduct Training (2)	4,578	2,231	2,231	4,945	**3,184**	(1,761)	(35.61%)
Online Financial Regulation & Staff Education (2)	8,517		9,760	9,760	**5,942**	(3,818)	(39.12%)
Online Market Analysis Techniques	5,663	4,106	4,106	3,642	**3,303**	(339)	(9.31%)
Statutory Accounting 101Program (3)	13,400				**3,208**	3,208	100.00%
Designation Program (11)	11,991	4,646	11,618	12,489	**13,883**	1,394	11.16%
SAP Webinars (9)	12,546		12,862	12,862	**8,736**	(4,126)	(32.08%)
Basic Insurance Self Study (2)	3,752	826	1,372	3,345	**900**	(2,445)	(73.09%)
How to Analyze Insurer Portfolios (3)	2,471				**3,246**	3,246	100.00%

BUDGET ITEM: Education and Training (continued from E19a)

How to File Securities with the SVO Online (2)	$ 7,781	$ 2,857	$ 6,234	$ 6,753	$ **3,631**	$ (3,122)	(46.23%)
Consumer Assistance Training Online (9)	4,613	2	4,897	4,895	**2,923**	(1,972)	(40.29%)
Model Laws Webinar (2)	726		2,830	2,830	**1,141**	(1,689)	(59.68%)
Bundles of Learning	2,581	2,480	3,530	3,575	**3,531**	(44)	(1.23%)
Producer Licensing Online Training (9)	9,863	2,617	5,088	4,943	**3,314**	(1,629)	(32.96%)
Mgmt. and Leadership Effectiveness (2)	3,197	834	834	3,730	**2,664**	(1,066)	(28.58%)
Reg. Overview-Princ.-Based Val. Sys. (2)	7,858		5,747	22,609	**6,425**	(16,184)	(71.58%)
What's Going on with Health Insurance (4)	16,187						
Regulation of Insurance Products Online (2)	6,349	5,120	9,180	8,121	**3,365**	(4,756)	(58.56%)
Fraud Investigation 101(4)	5,344		3,960	4,425		(4,425)	(100.00%)
Risk-Based Capital Training	6,109	4,350	8,044	4,218	**3,454**	(764)	(18.11%)
Regulating for Solvency: Risk Retention Groups		1,472	1,472	3,487	**2,294**	(1,193)	(34.21%)
Managing the Cost of Regulatory Compliance (9)			6,635	14,454	**10,659**	(3,795)	(26.26%)
Emerging Issues (7)		6,475	6,475	2,848	**4,516**	1,668	58.57%
Sales and Suitability (7)	24,576				**10,923**	10,923	100.00%
Financial Summit (6)	141,647				**153,861**	153,861	100.00%
Risk Assessment Training (8)	47,091	3,143	46,855	55,171	**3,660**	(51,511)	(93.37%)
Solvency Modernization Webinar (12)					**2,625**	2,625	100.00%
E-Regulation Conference (2)	100,188	86,323	86,323	100,264	**68,661**	(31,603)	(31.52%)
Total	$ 594,204	$ 167,442	$ 391,941	$ 494,289	$ **444,509**	$ (49,780)	(10.07%)

E19b: Education and Training

BUDGET ITEM: Education and Training (continued from E19b)

(1) Increased registrations are expected for these programs.

(2) Decreased registrations are expected for these programs.

(3) These programs are offered every other year.

(4) These programs will not be offered in 2010 as part of an association-wide review of services and priorities of education topics and issues into 2010.

(5) The NAIC offers insurers the opportunity of holding its Annual Statement Investments Schedules, Health Annual Statement Preparation and Basic Risk Assessment programs onsite. The insurer provides the location and participants; the NAIC provides the instructors, materials, and administration for the program for a fee. The increase in expenses for this program is based estimated increases in travel costs in 2010.

(6) The NAIC Financial Summit will not be held in 2009. The NAIC will take advantage of the change in national meeting schedule in 2010 to move the offering of this conference to June 2010. The 2008 dates for the Financial Summit were October 27-29. While attendance is expected to decrease slightly due to the current economy, the costs for this program are not expected to decrease. The majority of the cost to present this program are not based on participation, but are related to minimum charges for audo/visual and food and beverage services. The 2010 budget also assumes full utilization of the travel sponsorships offered to regulators, which were not fully consumed in the 2008 program.

(7) Due to the consistent addition of programs in mid-year after the preparation of the budget, an amount has been established to assume that at least one education program will arise during the year that was not contemplated during the preparation of the annual budget. The Sales and Suitability program is an example of such a program that surfaced in 2008. Due to the positive response to this offering this program will continue and be offered every other year.

(8) With the number of training sessions offered in previous years the need for Risk Assessment trainings has decreased. The Basic Risk Assessment trainings and Advanced Risk Assessment trainings will wind down in 2009 and be replaced with an online version to address training needs in this area in 2010 and beyond.

(9) The cost for these programs will vary based on participation, speaker expenses, internet hosting costs for online programs, and location and travel costs for classroom programs.

(10) The Surplus lines program is co-supported by the National Association of Professional Surplus Lines Offices (NAPSLO), who pays the NAIC $8,000 per year to fund the cost of this program.

(11) The professional designation program began in 2007 to provide structured experiences in which concepts and skills are taught and learned. Due to the importance of regulators' ongoing pursuit of professional excellence through education, the NAIC's Professional Designation Scholarship Program was approved to provide 22 $1,500 scholarships annually to individuals working toward an NAIC Professional Designation. With the evolution of this program, several services that are no longer necessary have been eliminated or replaced with lower cost promotional strategies.

(12) New program for 2010 (See Fiscal Impact 3).

2010 Budget by Area Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Education and Training Programs			$ 221,987			
Financial Summit				$ 153,861		
Risk Assessment Training Program						
E-Regulation Conference						$ 68,661
Total	$ -	$ -	$ 221,987	$ 153,861	$ -	$ 68,661

E19c: Education and Training

BUDGET ITEM: State and General Training

Item Description: Utilization of grant and zone funds and expenses incurred by the NAIC for state and general NAIC training events.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	2010 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	$ 414,742	$ 232,458	$ 815,349	$ 978,000	**$ 978,000**		0.00%
Zone Funds (2)	57,756	25,843	69,243	82,095	**77,643**	$ (4,452)	(5.42%)
State Training (3)	28,571	13,914	30,054	34,318	**37,656**	3,338	9.73%
General Training Expense (4)	76,967	35,759	70,609	44,899	**79,447**	34,548	76.95%
Total	$ 578,036	$ 307,974	$ 985,255	$ 1,139,312	**$ 1,172,746**	$ 33,434	2.93%

(1) The grant funding level for 2010 will be $13,000 per member, consistent with 2009. The savings projected in 2009 represent an expected under-utilization of these funds based on reimbursement requests received so far in 2009 and historical grant spending by members. The 2010 budget also includes the $250,000 in scholarships for regulators needing assistance to participate in NAIC national meetings, which was approved for the first time during the 2009 budget process. As of June 30, 2009, there is a total of $1,069,748 in unused grant funds by state departments. If these balances were to be fully utilized in 2009, the expense could exceed budget by $324,206. The risk of this level of 2009 expense is very low based on historical experience.

(2) Zone funds represent the utilization of the training dollars allocated to each member by the four Zones. A decrease in the spending level of these funds is anticipated during 2009 and 2010 based on actual spending in this line in 2009 and previous years. As of June 30, 2009, there is a total of $228,212 in unused funds held for the four NAIC Zones. If these balances were to be fully utilized in 2009, the expense could exceed budget by $171,960. The risk that this level of expense will occur is very low.

(3) State training costs include the cost to deliver technical and NAIC system training to NAIC members, including NAIC training staff travel to a state insurance department, mailing expenses, and the cost of manuals delivered in the training session.

(4) The general training expense includes (1) the costs of nationally produced training programs and instructional videos used by the Human Resources Department for association staff training needs and (2) regulator travel expenses reimbursed under the DeAngelo and Designation scholarship programs of $20,000 and $33,000, respectively. The variance in 2009 is due to the establishment of the Designation Scholarship Program ($30,000) by the Internal Administration (EX1) Subcommittee after the finalization of the 2009 budget. The budget for this program has been increased to $33,000 in 2010 to add two more scholarships in support of the success of this program.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Grant Funds (1)		$ 978,000				
Zone Funds (2)		77,643				
State Training (3)	$ 32,442					$ 5,214
General Training Expense (4)		24,947	$ 54,500			
Total	$ 32,442	$ 1,080,590	$ 54,500	$ -	$ -	$ 5,214

E20: State and General Training

BUDGET ITEM: Other Expenses

Item Description: Costs incurred for recruiting expenses, bad debt allowance and write-offs, zone sponsored events, and member relations.

Description	2008 Actual	6/30/09 Actual	12/31/09 Projected	2009 Budget	**2010 Budget**	Increase (Decrease)	Percentage
Recruiting and Relocation (1)	$ 322,000	$ 35,011	$ 62,001	$ 307,060	**$ 108,243**	$ (198,817)	(64.75%)
Bad Debt Expense (2)	191,057	(226,734)	(84,693)	250,000	**400,000**	150,000	60.00%
Zone Expenses (3)	174,257	15,037	159,837	153,600	**140,600**	(13,000)	(8.46%)
Research Grants (4)			2,000	2,000	**2,000**	-	0.00%
Member Relations (5)	5,473	698	2,990	2,950	**1,700**	(1,250)	(42.37%)
Total	$ 692,787	$ (175,988)	$ 142,135	$ 715,610	**$ 652,543**	$ (63,067)	(8.81%)

(1) The use of recruiting agencies to fill open positions with a unique skill set and those at the higher levels of management within the association has been curtailed for 2009 as a result of cost reduction measures implemented in June 2009. Significant recruiting expenses budgeted for the International Liaison Director position in 2009 will not be utilized based on the re-direction of this position in 2009. The budget also assumes much less reliance on external recruiting services for the attraction and retention of NAIC employees in 2010.

(2) Bad debt expense is a provision for future uncollectibile customer accounts receivable. The 2009 expense for uncollectible accounts is offset by the actual and projected collection of outstanding prior year database filing fees. The budget assumes an average historical level of bad debt allowances in 2010.

(3) Zone expenses are funds used by each of the four NAIC Zones to support functions and meetings of the zone. These expenditures are expected to increase in 2009 with the number and selection of sites for zone retreats, but decrease slightly in 2010 based on current plans for 2010 zone meetings and venues.

(4) The projected and budgeted amounts represent grant payments to individuals for the submission of articles for The Journal of Insurance Regulation (JIR).

(5) The member relations account includes expenses associated with the Dineen Award recipient and recognition of NAIC members and the NAIC Officers.

2010 Budget by Area

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Recruiting and Relocation (1)		$ 108,243				
Bad Debt Expense (2)		400,000				
Zone Expenses (3)		140,600				
Other Expense (3)						
Research Grants (4)						$ 2,000
Member Relations (5)			$ 1,700			
Total	$ -	$ 648,843	$ 1,700	$ -	$ -	$ 2,000

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2010 BUDGET
BUSINESS AND FISCAL IMPACT STATEMENTS

Fiscal Impact Number	Description	2010 Funding Requested	Capitalized	Revenue	Expense	Net Impact 2010 Budget
	NAIC Budget Prior to Fiscal Impacts			$ 73,625,814	$ 70,822,173	$ 2,803,641
	Business and Fiscal Impact Statements Proposed					
1	Market Conduct Annual Statement	$ 142,323	$ 1,040		141,630	(141,630)
2	Application Development and Testing Tools Expansion	37,291	26,800		18,675	(18,675)
3	Solvency Modernization Webinar	19,935		22,560	2,625	19,935
		$ 199,549	$ 27,840	22,560	162,930	(140,370)
	NAIC Budget After Approved Fiscal Impacts			$ 73,648,374	$ 70,985,103	$ 2,663,271

National Association of Insurance Commissioners

BUSINESS AND FISCAL IMPACT STATEMENT

DATE SUBMITTED:	SEPTEMBER 15, 2009
NAME OF PROJECT/INITIATIVE:	2010 DEVELOPMENT OF REPLACEMENT SYSTEM FOR MANAGING CENTRALIZED MARKET CONDUCT ANNUAL STATEMENT (MCAS) DATA
REGULATOR/BUSINESS SPONSOR:	MARKET REGULATION & CONSUMER AFFAIRS (D) COMMITTEE COMMISSIONER KIM HOLLAND, CHAIR
NAIC STAFF SUPPORT CONTACT INFORMATION:	TIM MULLEN, DIRECTOR MARKET REGULATION DIVISION (816) 783-8260 / TMULLEN@NAIC.ORG CRAIG L. LEONARD, ASSISTANT DIRECTOR MARKET REGULATION DIVISION (816) 783-8268 / CLEONARD@NAIC.ORG RANDY HELDER, MANAGER, MARKET ANALYSIS MARKET REGULATION DIVISION (816) 783-8261 / RHELDER@NAIC.ORG
FOR PROJECTS INVOLVING TECHNOLOGY DATE INFORMATION SYSTEMS (EX1) TASK FORCE APPROVED:	______________
REQUESTED PROJECT START DATE:	SEPTEMBER 1, 2009
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2010
TOTAL PROJECT IS RESOURCE HOURS:	3,795 HOURS
TOTAL REVENUE AMOUNT GENERATED:	POTENTIAL VOLUNTARY PRODUCT/SERVICES OFFERING – AVAILABLE IN 2011
TOTAL EXPENSE AMOUNT REQUESTED:	$141,630
TOTAL CAPITAL AMOUNT REQUESTED:	N/A

I. Executive Summary

The Market Conduct Annual Statement (MCAS) pilot project began in 2002 with the Ohio Department agreeing to provide the business and technical support for the project. The goal of the project was to provide a uniform system of collecting market related information. The market related data serves as a cornerstone for key market analysis initiatives. MCAS was made a permanent project in 2004. Twenty-nine states currently participate in collection of MCAS data.

On Sept. 24, 2008, the NAIC Membership adopted a motion to approve the transfer of MCAS data collected in 2009 by the 29 participating states to the NAIC for storage, aggregation, and analysis in an Access Database. In addition, the NAIC membership adopted a motion for all states to participate in the MCAS system in 2010 and agreed in concept with centralized market conduct data collection and storage at the NAIC.

This fiscal requests funding to develop a centralized MCAS system. Through the centralized collection, tracking, validating, analyzing, and reporting of MCAS data, the NAIC is providing its membership with a sophisticated market analysis resource to assist them in protecting insurance consumers. The current system lacks the functionality to meet the needs of centralization and it is impractical to modify because it is written in a version of Microsoft Access® which is no longer supported. The proposed replacement leverages existing NAIC technology to deliver a highly-automated alternative that is both integrated and flexible.

Because analytical principles are still being established, analysis techniques and results may vary across jurisdictions. This MCAS centralization project presents an ideal opportunity for market analysis to become more scientifically based and uniform. With standardization, the state has consistent data, the consumer's interest is monitored in a regular fashion, and companies can expect similar responses to their data from multiple jurisdictions.

The objectives of this proposal are to:

- Standardize data through edit checks and validation routines.
- Develop and deliver a system with the flexibility to adapt to MCAS changes going forward as dictated by changes to the regulatory environment and regulator needs.
- Collect and maintain MCAS data in a centralized location that can accommodate multi-year retention of the annual data volume expected.
- Establish an information source against which regulators can query and compare their state markets to regional and national markets in various categories.
- Streamline, automate, and integrate the MCAS process of market conduct analysis and reporting in keeping with the NAIC 2000 Statement of Intent and the 2003 Insurance Regulatory Modernization Action Plan which promotes the use of uniformity, standards, regulatory oversight with local control, and technology in the Market Regulation discipline.

To accomplish these objectives, the following six controlling assumptions were made:

1. To address concerns regarding confidentiality, MCAS data has to be filed with each individual state prior to being centrally stored at the NAIC.
2. Insurance companies need a uniform and consistent online interface to file with all states rather than multiple state interfaces.
3. The MCAS data filing should be a separate and distinct process from the Financial Annual Statement Filing.
4. Current functionality available to the states should be retained.
5. The new system must be flexible enough to provide for the modification of data elements or the addition of new lines of business.

6. The new system must have minimal impact on state resources for both data validation and data analysis. As part of the data validation process, the data will be held in the NAIC database as "preliminary data" for 60 days after the filing deadline for state review and data validation.

II. Benefits of Project/Initiative to NAIC Members

The creation of a centralized MCAS system is expected to result in significant time savings and increased productivity for regulators, especially those directly involved in market analysis for their jurisdiction. Members should expect improved data integrity through the NAIC's use of business rules and edits. Having a basic set of reports produced automatically and available electronically will be a tremendous benefit to regulators, particularly to those in states with limited resources who were unable to conduct market analysis in the past. The functionality to support ad hoc querying will exist for regulators wanting additional or specialized data in order to perform more in-depth analysis. With cleaner data and more of it, regulators could realize a reduced need for on-site market exams.

There is a continuing demand by regulators for market analysis data that goes beyond the complaints and regulatory action databases the NAIC hosts today. The availability of nationwide, standardized data is a basic necessity in order to monitor company practices on behalf of consumers. Consider the success of the NAIC Financial Annual Statement model where centralization, standardization, full participation, and automation are its cornerstones. This initiative is the first step toward creating a similar resource for market analysis. All jurisdictions contributing to and drawing from a common data source will improve the efficiency of the market conduct review process.

The centralization of MCAS data will benefit industry, as well. By providing the mechanism for collecting and storing nationwide data, industry's issues regarding usefulness, consistency and errors in the data can be examined and addressed. Participation by all jurisdictions will provide a more robust dataset and minimize whatever data skewing may have been associated with moderate state involvement.

While not apparent on an individual basis, the consumer population may be the biggest beneficiary of all. Through nationwide, centralized data, regulators will be able to compare the experience of their consumers with those in other states, be alert to regional variances, and watch for trends. Company best practices as well as improvement areas will begin to emerge. With this knowledge, regulators can partner with industry to ensure consumer interests are protected.

In summary, the following benefits will be gained from acting on the proposed solution:

- Establishes an information source against which regulators can query and compare their state markets to regional and national markets in various categories.
- Standardizes MCAS data through edit checks and validation routines.
- Develops and delivers a system with the flexibility to adapt to MCAS changes going forward as dictated by changes to the regulatory environment and regulator needs.
- Collects and maintains MCAS data in a centralized location that can accommodate multi-year retention of the annual data volume expected.
- Protects confidentiality of data.
- Provides insurance companies a uniform and centralized point of filing to each state.

III. Stakeholders

The stakeholders for this project include NAIC members, insurance companies, and NAIC staff.

<u>NAIC Members</u>: NAIC members and regulators will realize increased efficiencies from fewer company questions and the reduced time spent on administrative tasks since many of those tasks will be transitioned to the NAIC. NAIC staff will continue to address MCAS questions submitted via e-mail and via the new telephone line dedicated to MCAS. When a state sends MCAS data to the NAIC it will be

added to MCAS data sent by other states. After a quality check, the NAIC will aggregate and analyze the data for inclusion in national ratios and averages. These will be available for use by the states as another tool in evaluating the insurance industry.

Insurance Companies: Insurance companies will experience the efficiency of using either the data entry or file attachment front-end to submit their data. Webinar training sessions will be available to demonstrate the submission options and address their questions.

NAIC Staff: Staff in the Market Regulation, Information Systems, Financial, and Insurance Products and Services areas will be responsible for developing and delivering the centralized system. The Market Regulation area is expected to be the most heavily involved with the MCAS process in subsequent years.

IV. Business and Operational Impact

The business impact of this project is aimed directly at improving the NAIC market regulation model. The centralization of data will provide the long-term structure to implement effective market analysis and interstate collaboration of regulatory efforts, making state insurance regulators stronger by leveraging economies of scale, uniformity and consistency. There is an "extensive and rigorous" process in place for the collection of financial data, which was developed over time. It has had a very positive impact on the strength of insurers and state-based insurance regulation. A similar process is necessary for market data, but until it is in place, more effective consumer protections will be difficult to identify and monitor.

The operational impact from this project is minimized by leveraging existing technology and processes. For example, the existing NAIC Help Desk will handle calls from companies as they enter their data using the front-end Market Conduct System (MCS). There will be one-time set up activities associated with configuring the Insurance Data Repository (IDR) to accommodate MCAS requirements. Existing training modules for industry will change to reflect the new data submission process. The corresponding regulator training will be changed to include information on accessing and using the new reports and querying capability.

V. Financial Impact

This project utilizes existing NAIC staff from the Market Regulation, Information Systems, Financial, and Insurance Products & Services areas. To support these development efforts, as well as manage the on-going increased workload associated with MCAS centralization, this project requests an allocation of a new full time employee in the Market Regulation Department. The proposal also calls for using a consulting partner to handle a portion of the programming. In addition, there will be expense associated with the increased data storage needs of both the MCS and IDR components. The combined estimated cost of these items is $141,630 for 2010. A detailed breakdown of these expenses is provided at the end of **Appendix A**.

An equally important aspect of this project is its funding, which could be provided through value-added and voluntary products and services to the industry. Revenue opportunities may result from (1) webinars to assist companies in understanding the data elements, filing requirements and logistics, similar to training offered during 2009 for companies submitting 2008 data and generating approximately $10,000 in 2009 revenues and/or (2) the delivery of bundled services that may include status alerts regarding the filing, filing summaries/reports and/or company specific reports from other NAIC databases, such as complaint information, a listing of formal regulatory actions or listing of closed examinations reported to the NAIC by the states, and potential elements from the NAIC financial database. Such products would be offered as a value-added service to the industry subject to a voluntary service fee and respecting all confidentiality concerns. The details of these services and related pricing would serve to offset the cost of designing, building, maintaining and resourcing the enhanced MCAS system.

VI. Alternatives or Partnerships

Consideration was given to utilizing a vendor to provide the data collection front-end for this centralization effort. Historically, vendor development lead time is lengthy and the cost of using that software is not insignificant for a company. Based upon the ability of the NAIC to provide the front-end functionality to industry, the vendor approach was not pursued further.

VII. Risk Management

The primary risk associated with this project lies in the policy decisions and recommendations of a centralized MCAS data collection concept rather than the technology of supporting it. The availability of nationwide market conduct data to the individual states is precedent setting. There is concern by some in industry about how this data will be analyzed and used by the NAIC and regulators.

From a technology standpoint, the risk lies with the current databases used to collect the MCAS data today. These databases were developed in Microsoft Access® version 2000, a version no longer supported by Microsoft. Incompatibility issues with later versions of Access and subsequent operating systems could render the existing system defunct. If the Access system fails, the MCAS data collection process could not proceed. Discontinuation of the MCAS collection process would be a major setback for the market analysis initiative.

In summary, the following risks exist for not acting on the proposed solution.

- Microsoft no longer supports the current version of Access used for MCAS.
- There is an increased risk of encountering compatibility issues when the MCAS application is used on company or state computers with newer versions of Microsoft products. This risk continues to increase as newer releases become available and states and companies upgrade.
- The current code and system design has size capabilities and prevents the addition of new lines of business or additional data elements.
- With the current Access version of MCAS, actual databases, and sometimes software, must be supplied to companies and states. This increases the risk of installation problems and non-uniformity from one site to the next.
- No new additional states may participate in MCAS because of system limitations and NAIC resource limitations.

APPENDIX A

1. DESCRIPTION OF EXISTING BUSINESS PROCESS

The diagram included as **Appendix B**, titled 2008 MCAS Data Collection in 2009, provides a visual representation of the existing process flow. The key elements of the process are explained below.

a. Call Letter: The call letter is a communication, sent by the NAIC on behalf of a state, notifying a company of their obligation to file a Market Conduct Annual Statement. This selection process is based primarily on a premium volume by line of business as reported in the company's Financial Annual Statement filing.

b. Company Contact database: This is the repository of contact information provided by companies through a web entry form on the NAIC public web site. This information is used to distribute call letters.

c. Financial Data: The Financial Annual Statement data submitted by insurance companies each year.

d. Company Access database: The companies download a company version of the MCAS Microsoft Access® database from the NAIC web site. They populate this database with their MCAS data before sending it to the state(s) in which they do business.

e. State Access database: The states download a state version of the Microsoft Access® database from the NAIC web site. They populate this database with the MCAS data submissions received from companies doing business in their jurisdiction.

f. National Access database: The national version of the Microsoft Access® database is maintained at the NAIC. This database is populated with the MCAS data submissions received from the participating states.

g. Report Card: At the close of the data collection period each state database creates state-wide averages for predetermined areas of analysis. This information is distributed to each company, along with their company-specific performance ratios, to provide the company with information about how they rank among other companies doing business in that state.

2. BUSINESS PROCESS CHANGES TO BE INTRODUCED THROUGH TECHNOLOGY

The diagram included as **Appendix C**, titled MCAS Centralization Data Collection Process, provides a visual representation of the proposed process flow. The key differences between the current and proposed processes are:

- company submission of MCAS data through an MCS interface rather than an Access® database;
- data flowing through a validation loop with kick-out and resubmission sub-processes;
- validated data populating IDR tables; and
- replacement of the Certificate of Compliance document with an attestation check box.

The IDR tables will accommodate multiple years of submissions, and they will be the source for standardized and ad hoc reports by NAIC staff and regulators.

3. Impact to Existing Systems or Projects

a. NAIC National Technical Architecture for State-Based Insurance Regulation (NTASBIR or NTA). The implementation of MCAS centralization will leverage the existing NAIC technical infrastructure in creating an IDR.

b. National Portal. The implementation of MCAS will leverage existing infrastructure. Some data collected may be presented in the portal in the future.

c. NAIC Security Framework. States will utilize the NAIC Security Framework.

d. XML Data Exchange Standard. The implementation of MCAS centralization will not use XML due to use of existing NAIC technical infrastructure.

e. Industry Systems. There are no additional requirements.

f. Consumer Systems. There are no additional requirements.

g. States. There are no additional requirements.

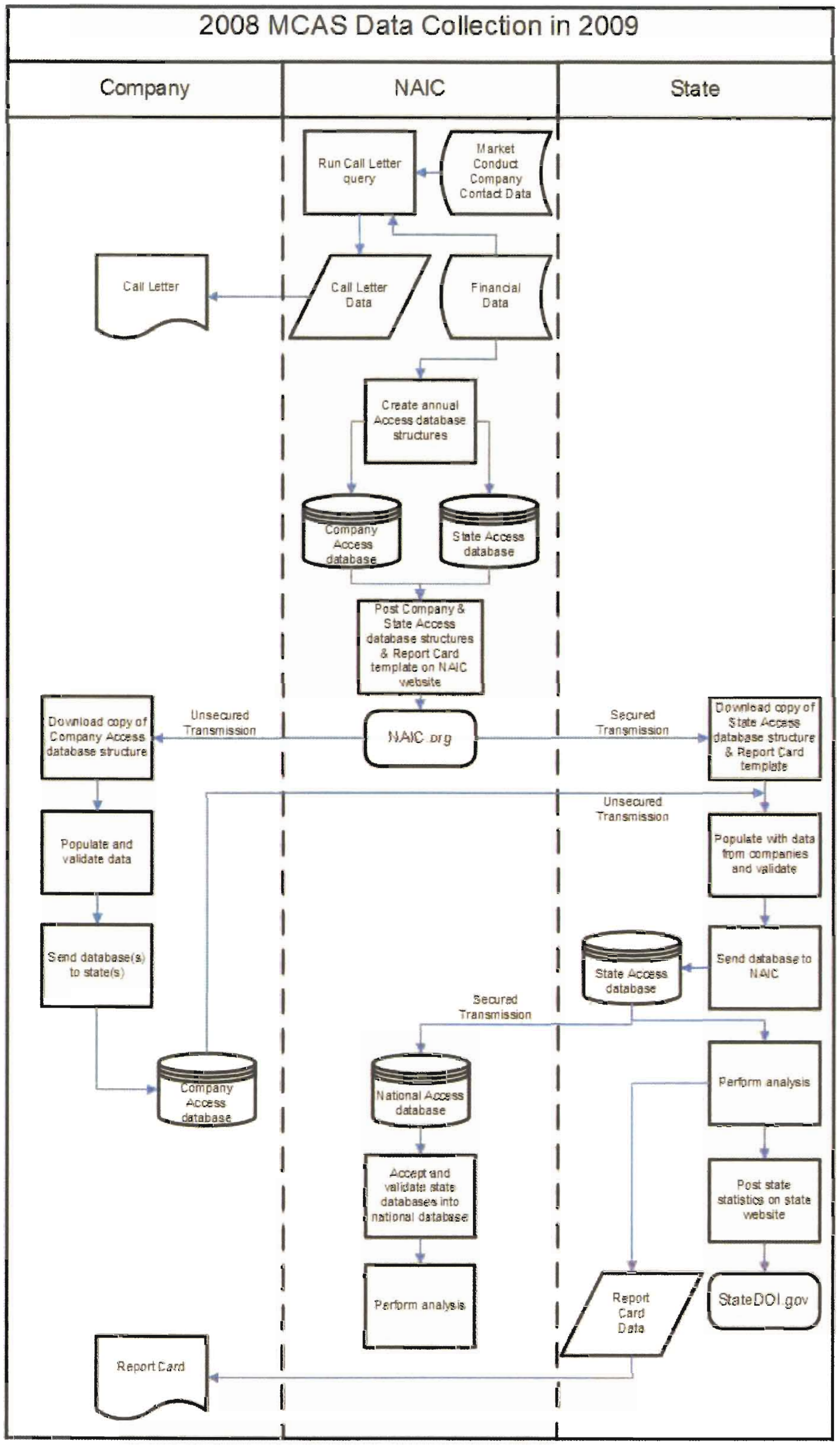
h. NAIC Offices. The implementation of MCAS will leverage the existing NAIC technical infrastructure in creating the IDR.

4. Projected Resources

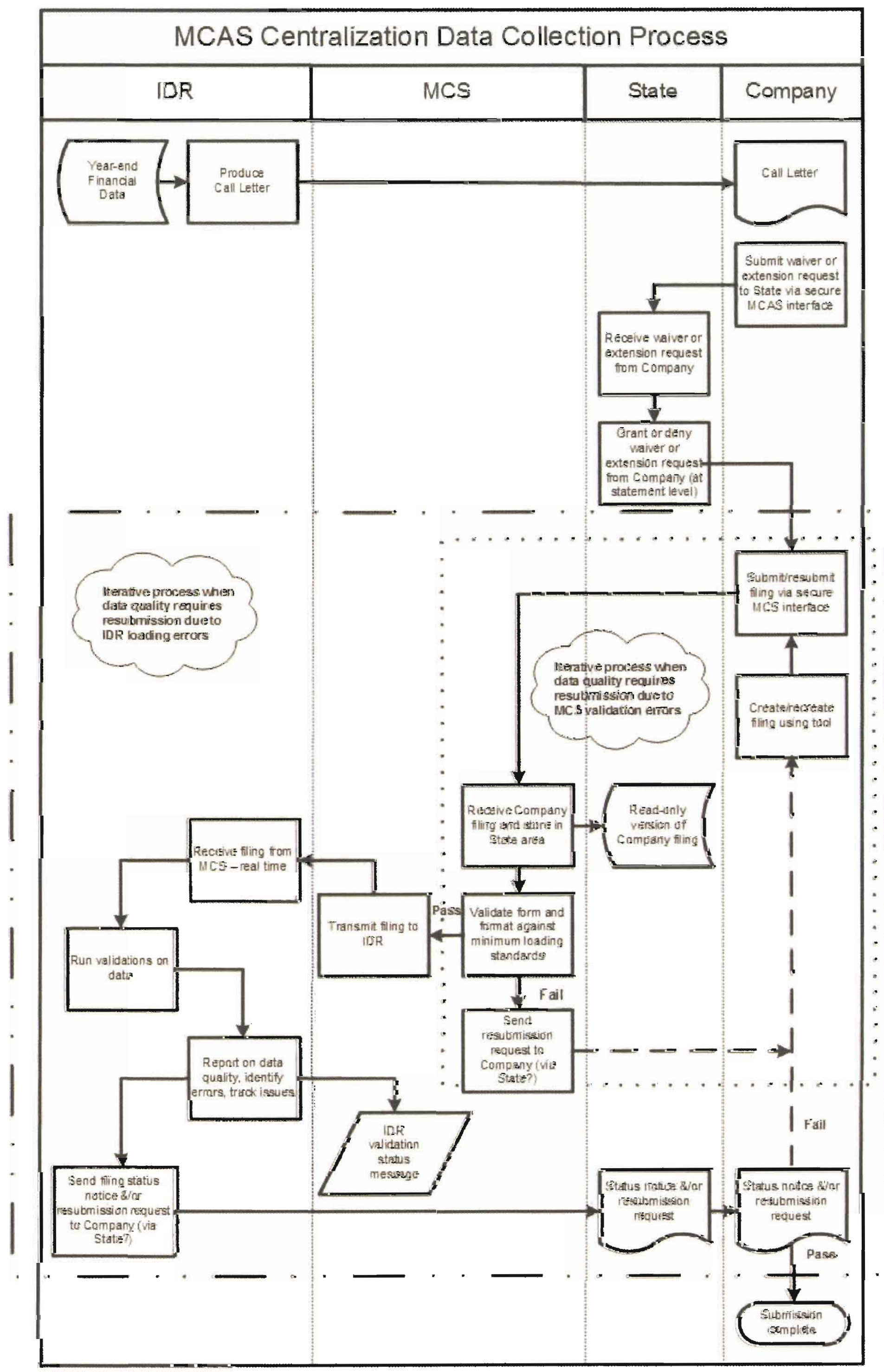
Resources	2009		2010		Total
	Hours	Cost	Hours	Cost	Cost
IS Technology staff*			1,300	$0	$0
Technical Services staff*			95	$0	$0
IPSD Technology staff*			300	$0	$0
Programming Outsource (Aithent)			2,100	$63,000	$63,000
Data Storage (MCS + IDR) per year			N/A	$21,743	$21,743
Market Systems Business Analyst III*	975	$0	975	$0	$0
Market Regulation Trainer*			100	$0	$0
Market Analysis Systems Liaison III*			475	$0	$0
Market Data Reporting Analyst II**	475	$0	1,875	$0	$0
Market Analysis Systems Liaison II***			1,875	$56,887	$56,887
Totals	1,450	$0	9,095	**$141,630**	**$141,630**

Given anticipated future changes, ongoing consulting expenses are anticipated. In 2011, the ongoing consultant cost is estimated to be 500 hours at $30/hour for a total of $15,000.

* Existing FTEs will be assigned. Reduces the availability for other projects.
** Existing opening for Market Analyst will be converted to Market Data Reporting Analyst II.
*** New FTE requested within this proposal.


2008 MCAS Data Collection in 2009
Company
NAIC
State
Run Call Letter query
Market Conduct Company Contact Data
Call Letter
Call Letter Data
Financial Data
Create annual Access database structures
Company Access database
State Access database
Post Company & State Access database structures & Report Card template on NAIC website
Download copy of Company Access database structure
Unsecured Transmission
NAIC.org
Secured Transmission
Download copy of State Access database structure & Report Card template
Unsecured Transmission
Populate and validate data
Populate with data from companies and validate
Send database(s) to state(s)
State Access database
Send database to NAIC
Secured Transmission
Company Access database
National Access database
Perform analysis
Accept and validate state databases into national database
Post state statistics on state website
Perform analysis
Report Card Data
StateDOI.gov
Report Card

Appendix C


MCAS Centralization Data Collection Process
IDR
MCS
State
Company
Year-end Financial Data
Produce Call Letter
Call Letter
Submit waiver or extension request to State via secure MCAS interface
Receive waiver or extension request from Company
Grant or deny waiver or extension request from Company (at statement level)
Iterative process when data quality requires resubmission due to IDR loading errors
Submit/resubmit filing via secure MCS interface
Iterative process when data quality requires resubmission due to MCS validation errors
Create/recreate filing using tool
Receive Company filing and store in State area
Read-only version of Company filing
Receive filing from MCS – real time
Transmit filing to IDR
Pass
Validate form and format against minimum loading standards
Fail
Run validations on data
Send resubmission request to Company (via State?)
Report on data quality, identify errors, track issues
IDR validation status message
Fail
Send filing status notice &/or resubmission request to Company (via State?)
Status notice &/or resubmission request
Status notice &/or resubmission request
Pass
Submission complete

ATTACHMENT I

Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

Project/Initiative: Market Conduct Annual Statement
2010 Budget

Description	2010 Annual Budget	2010 Budget Spread January	February	March	April	May	June	July	August	September	October	November	December	2010 Total	2011 Budget	2012 Budget
Revenues:																
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:																
Salaries and Benefits	56,140	4,507	4,357	4,909	4,682	4,499	4,680	4,701	4,723	4,756	4,582	4,774	4,969	56,140	58,550	61,001
Training	400		400											400	-	-
Consulting (Aithent)	63,000	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250	63,000	15,000	-
Storage	21,743	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,811	21,743	21,743	21,743
Depreciation	347	29	29	29	29	29	29	29	29	29	29	29	28	347	-	-
Total Expenses	141,630	11,598	11,848	12,000	11,773	11,590	11,771	11,792	11,814	11,847	11,673	11,865	12,058	141,630	95,293	82,744
Revenues Over (Under) Expenses	$ (141,630)	$ (11,598)	$ (11,848)	$ (12,000)	$ (11,773)	$ (11,590)	$ (11,771)	$ (11,792)	$ (11,814)	$ (11,847)	$ (11,673)	$ (11,865)	$ (12,058)	$ (141,630)	$ (95,293)	$ (82,744)
Capital:																
Personal Computer for New Employee	$ 1,040	$ 1,040												$ 1,040		
Total Capital	$ 1,040	$ 1,040	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,040	$ -	$ -

National Association of Insurance Commissioners

BUSINESS AND FISCAL IMPACT STATEMENT

DATE SUBMITTED:	MAY 20, 2009
NAME OF PROJECT/INITIATIVE:	APPLICATION DEVELOPMENT & TESTING TOOLS EXPANSION
REGULATOR/BUSINESS SPONSOR:	NAIC INTERNALLY SPONSORED DENISE MATTHEWS, DIRECTOR INFORMATION SYSTEMS DIVISION
NAIC STAFF SUPPORT CONTACT INFORMATION:	DENISE MATTHEWS, DIRECTOR INFORMATION SYSTEMS DIVISION (816) 783-8007, DMATTHEW@NAIC.ORG
FOR PROJECTS INVOLVING TECHNOLOGY DATE INFORMATION SYSTEMS (EX1) TASK FORCE APPROVED:	
REQUESTED PROJECT START DATE:	JANUARY 2010
ANTICIPATED COMPLETION DATE:	DECEMBER 2010
TOTAL EXPENSE AMOUNT REQUESTED:	$18,675
TOTAL CAPITAL AMOUNT REQUESTED:	$26,800

I. Executive Summary:

A key function of the Information Systems Divisions (ISD) is the development and deployment of custom applications supporting the state regulation of insurance. The ISD currently supports a portfolio of over 300 applications and reports. Ongoing enhancements and maintenance to existing applications, plus the development of new applications to support additional business initiatives, require the ISD to continually assess methods and tools for streamlining process and procedure, and reduce time required to deliver quality applications to our internal and external customers.

To continue this effort, approval for funding is being requested for the purchase of additional licensing to expand the use of HP Quality Center (HPQC) across the enterprise and to purchase the JIRA defect management toolset for use by all development teams. Augmenting the effort in 2009 to implement HPQC/JIRA toolset for limited use, this initiative is designed to expand their usage across the enterprise to promote a standardized methodology supporting test/requirement/ defect management, and ensure a consistent approach is used in the development/support of new and existing applications.

The HPQC/JIRA solution enhances capabilities from both a test management and application development perspective by improving decision-making capabilities at the release and project level, as well as supporting the continuous integration of development tools currently being used across the various business areas. Through the real-time status/reporting capabilities of both toolsets, efficiency gains in the areas of cross-organizational communication and visibility to issues/roadblocks are attainable. By broadening the use of these products across the enterprise, these benefits will be realized by managers, business analysts, project managers, test engineers, and the development teams. This creates significant business process improvement opportunities across all business areas to reduce development/test cycle times, and minimize post-release production defects.

II. Benefits of Project/Initiative to NAIC Members:

A. HP Quality Center Expanded Licensing

Increased accessibility to the HPQC toolset provides full product capabilities to others across the enterprise. Specifically, this provides all NAIC/NIPR IT-related organizations with a standardized method for managing requirements, test cases, and related defects. For managers and project managers, dashboards and customizable reports are available to track release/project status on a real-time basis, providing a clear understanding of a project's 'health', and associated risk, prior to a production deployment. Because these tools will be available for wider use, the opportunity exists for the development of common processes to be utilized by business analysts, test engineers, developers, and project managers, as a function of building and deploying software products for both associations.

By expanding HPQC's usage beyond the IS Quality Assurance (ISQA) department, functionality listed below will be available across the enterprise:

- Repositories for business requirements, test cases, program/application defects;
- The ability to link defects to test cases, requirements, and projects;
- Store and manage test results and customized reports;
- Store, manage, and execute automated test scripts;
- Manage and allocate work across test resources;
- Customize defect tracking categories at the project level;
- Organize test approaches and test plans;
- Customizable metrics reporting at the release and project level; and
- Integration with existing load and performance toolsets.

B. JIRA

JIRA is a defect tracking system that allows users to prioritize, assign, track, report, and audit issues at all levels within the development lifecycle. A series of application programming interface's (API's) designed around this open source product provides continuous integration of software development tools designed to manage and control the defect resolution process. Specific advantages of the JIRA toolset include:

- The control and management of the defect resolution process;
- Works in conjunction with the Hudson, Ivy, and Subversion development tools;
- Fully integrates with the HPQC product;
- Automates the application build, unit test, and release note generation functions;
- Supports additional, internal customization through API's;
- Manages various defect categories and types, across multiple test phases;

- Allows customizable defect tracking at a project and release level; and
- Links defects to specific files/programs.

Through the functionality provided, JIRA provides a cost-effective replacement for Tracker, the current defect management tool, and all additional requirements that have been requested for that application. The elimination of internal development costs for these improvements, the lower cost associated with JIRA versus the purchase of HPQC defect management licenses, and the additional functionality provided to the development teams support the purchase of this product. This, combined with the HPQC interface provided with JIRA, enables the HPQC/JIRA toolset to provide a robust solution for both test management and application development teams across all organizations. Working in concert with HPQC, JIRA provides the ability to ensure all defects are addressed prior to releasing code to production, significantly reducing post-implementation production defects and minimizing impacts to both internal/external customers.

III. Stakeholders:

- Support
  - Technical Services Division will be responsible for the installation and support of these tools and related hardware.
  - The IS Division will need to dedicate staff to assist Technical Services in establishing HPQC/JIRA operating environment, and support the initial configuration needs of both toolsets.
- Internal Users
  - ISQA, in partnership with other NAIC/NIPR test and development organizations, will be required to establish standards across both toolsets. ISQA will assume responsibility for administration of the HPQC/JIRA systems, and will be a general user of the applications.
  - Development managers/team members will be responsible for the integration of JIRA to other development tools, specifically Hudson, Ivy, and Subversion. They will also be general users of the systems, with responsibility for entering/managing defects, and ensuring defects relate and/or attach to specific requirements.
  - Business Analysts, as general users of HPQC/JIRA, will be responsible for entering/managing requirements and other related information within the HPQC system.
  - Business-area testers, as general users of both systems, are responsible for entering, managing, and executing test cases from within HPQC, and creating/monitoring defects within JIRA.
  - Project Managers, as general users of the systems, will have access to reports/dashboards assessing the status of specific projects and/or releases, and monitor progress resolving defects within the testing phases.
- Members and Customers
  - Benefactors of the NAIC/NIPR realize benefits through these tools from a production stability perspective. This is done through improved decision-making capabilities prior to release implementation, and the standardization of processes utilized by business analysts, project managers, test engineers, and developers to ensure a consistent approach is utilized for all projects, across all entities.

IV. Business and Operational Impact:

- The Technical Services Division will be required to build and manage an environment that operates both HPQC and JIRA toolsets. This environment and software will be new to NAIC staff.
- Security will be required to partner with ISQA to ensure proper measures are established and monitored on an ongoing basis.

- General users, including ISQA staff, will be required to support the initial setup of the two applications, along with the creation and rollout of new processes.
- Internal, possibly external training will be required for both toolsets.

V. Financial Impact:

The expenses associated with ten (10) additional site licenses for HPQC is as follows:

- Additional site license cost for ten (10) licenses with an assumed discount based on the 2009 purchase price of quality center $26,800; and
- Ongoing annual maintenance of $5,226 per year (19.5% of the site license cost).
    - Maintenance includes researching, correcting defects, fixes, new releases, upgrades, patches and ongoing customer support.

	2010 Budget Impact (List Price)	**2010 Budget Impact (Discounted Price)**
Capital:		
JIRA **	$4,800	$0
HPCQ Expanded Licensing *	$40,000	$26,800
2010 Capital Total		**$26,800**
Expense:		
HPQC Expanded Licensing (Depreciation and Maintenance)	$20,022	$12,975
JIRA	$9,700	$5,700
2010 Expense Total		**$18,675**

NOTES:

** Discounted prices are assumed based on the 2009 proposed vendor pricing of Quality Center but cannot be guaranteed with 2010 purchase. 2010 expenses assume acquisition of software and maintenance in February 2010.*

*** Discounted price assumes that the NAIC will qualify for a non-profit license of JIRA. The paperwork for the approval of this vendor pricing is in progress but this price cannot be guaranteed. 2010 expenses assume acquisition of software and maintenance at the non-profit status pricing.*

**** Capital software will be depreciated using a three-year schedule. It is assumed that HPQC additional licenses will be acquired in February 2010. Expense requests are based on discounted/non-profit pricing from vendors.*

VI. Alternatives or Partnerships:

Alternative test management solutions were evaluated 2009, including tools that were less expensive, but provided less functionality based on the stated requirements. For all tools reviewed, none provided the combined support for both test/requirements management and the continuous integration capabilities desired by the development teams.

An alternative to purchasing additional HPQC licenses to allow a wider use of the toolset is for ISQA to manually import business requirements, test cases, and other project-related documentation into HPQC, and export related reports and documents to others across the divisions. This approach would create a staffing need within ISQA, and all but eliminate the 'real-time' update and reporting capabilities of both systems.

Alternatives to purchasing JIRA include continued use of Tracker, our existing defect tracking tool, or the purchase of additional defect licenses for the HPQC product. Both of these options are outlined in the Risk Management section below as being more expensive solutions.

VII. Risk Management:

A. HPQC Expanded Licensing

The ISQA team will partner with multiple business areas across NAIC/NIPR to reduce the risk of implementing HPQC and its related methods and procedures. Our success factor will be the full implementation across all business areas, and its utilization by Business Analysts, Project Managers, and Test Engineers by the end of 2010.

By expanding the licensing to support wider use, business areas will need to transition from their current processes to accommodate the new toolset. This is a potential risk, specifically with regard to time/resources required to implement and use the product, while meeting their production release schedule. This will be mitigated through development of a clear implementation plan, and leveraging the use of interns within the ISQA team to perform low-level migration tasks.

By not purchasing additional HPQC licensing, the risks are primarily associated with the continued use of manual process, and the potential for less effective, and less efficient testing. Without this purchase, the time/effort involved with testing will continue to increase, significantly limiting the ability of ISQA and other test teams to absorb the testing of new applications, and accurately test standard business and security requirements of the existing applications.

B. JIRA

The ISQA team will partner with business and development teams to setup and deploy the JIRA software. The development teams will be responsible for the integration of JIRA to other development tools, such as Hudson, Ivy, and Subversion. From an ISQA perspective, the success factor will be the full integration of HPQC/JIRA solution and the use of JIRA as the defect management tool across all organizations by the end of 2010.

To ensure consistency across business areas, methods and procedures will need to be developed and implemented prior to the full rollout of JIRA. The capabilities and configuration requirements of JIRA's asynchronous plug-in will be better understood during third and fourth quarters of 2009. To mitigate any risk, the ISQA team will work with Technical Services and developers to develop the approach and standards surrounding the use and configuration of the plug-in. To ensure a clear understanding of these procedures, and the use of JIRA, training will be required for internal staff.

Not acquiring the JIRA software will mean that additional enhancements will need to be made to the current tracker tool in order to support the growing needs of development and testing. There are currently 28 enhancements that will need to be made to the existing defect tracking system to meet the requirements of the business areas. The current estimates for the 28 needed enhancements 6+ months of development time and would still not integrate with other development tools or Quality Center; continuous integration could not be achieved without the purchased of JIRA. Another alternative to using JIRA would be to purchase an additional 30 defect licenses for HPQC at an assumed discounted cost of $13,400 plus an ongoing maintenance cost of $2,613 each year.

1. Description of Existing Business Process

- ISQA creates the release date calendar and maintains release critical-dates documents manually;

- Developers/business areas submit release requests;
- Test cases are sometimes provided with trackers submitted for releases, but are neither tracked nor validated other than manually;
- Communication regarding what testing has been performed at each level is not consistent or validated other than manually;
- ISQA has no control and in some cases, no information regarding testing practices performed by developers, business partners and users;
- ISQA performs cursory (non-data related) testing;
- Developer/business area performs more detailed and data-related testing – no official tracking of test results; and
- Sign-off on release is received and documented manually.

2. Business Process Changes to be Introduced through Technology

- ISQA creates release cycle in HPQC;
- Business analysts document business requirements in HPQA for each release cycle;
- Business analysts create test cases attached to specific business requirements for each release and assign to developers, users or ISQA;
- Developers, users and ISQA perform assigned tests;
- Defects are created in JIRA to track bugs identified during testing;
- Defect reporting available at all stages of release cycle through JIRA and HPQC;
- Defect assignments maintained by business analysts, testers, or project managers;
- ISQA/management monitors test cases and issue tracking system for adherence to release process;
- Sign-off on release is received and saved in the system; and
- Reporting functionality is available at every step of the process.

3. Impact to Existing Systems or Projects

a. NAIC National Technical Architecture for State-Based Insurance Regulation (NTASBIR or "NTA"). Neither the use of HPQC nor the JIRA tool directly impacts this project.

b. MyNAIC.org. Neither the use of HPQC nor the JIRA tool directly impacts this area other then both of these tools will be used to support this application and application area.

c. NAIC Security Framework. HPQC will allow testers the ability to create and maintain security test cases within the system. Security testing can be evaluated on a project basis to ensure it has been completed before an application or report is moved to production.

d. XML Data Exchange Standard. Neither the use of HPQC nor the JIRA tool directly impacts this project.

e. Industry Systems. Neither the use of HPQC nor the JIRA tool directly impacts this area.

f. Consumer Systems. Neither the use of HPQC nor the JIRA tool directly impacts this area.

g. States. The use of HPQC and JIRA will allow development of new applications, existing defects, and enhancements to make it out the door faster. This will benefit anyone using any of the applications provided by the NAIC/NIPR.

h. NAIC Offices. The usage of HPQC and JIRA may allow the replacement of three internally developed applications: Tracker, ASSIST, and Application Inventory. JIRA will directly replace tracker. ASSIST and Application Inventory will be replaced by HPQC.

4. PROJECTED RESOURCES

In addition to the costs outlined in above the total number of hours for projected resources is 700 internal staff hours.

ATTACHMENT I

Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

Project/Initiative: Application Development & Testing Productivity Tools
2010 Budget

Description	2010 Annual Budget	2010 Budget Spread January	February	March	April	May	June	July	August	September	October	November	December	2010 Total	2011 Budget	2012 Budget
Revenues:																
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:																
Online Training (JIRA Admin)	$ 2,700		$ 2,700											$ 2,700		
Online Training (JIRA User)	3,000			$ 3,000										3,000		
Maintenance (HPQC)	4,791		436	436	$ 436	$ 436	$ 436	$ 436	$ 436	$ 436	$ 436	$ 436	$ 436	4,791	$ 5,226	$ 5,226
Depreciation (HPQC/Weblogic)	8,184		744	744	744	744	744	744	744	744	744	744	744	8,184	11,044	11,466
Total Expenses	**18,675**	**-**	**3,880**	**4,180**	**1,180**	**1,180**	**1,180**	**1,180**	**1,180**	**1,180**	**1,180**	**1,180**	**1,180**	**18,675**	**16,270**	**16,692**
Revenues Over (Under) Expenses	**$ (18,675)**	**$ -**	**$ (3,880)**	**$ (4,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (1,180)**	**$ (18,675)**	**$ (16,270)**	**$ (16,692)**
Capital:																
Software (HPQC)	$ 26,800		$ 26,800											$ 26,800		
Software (Weblogic Server License)	-													-	$ 7,600	
Total Capital	**$ 26,800**	**$ -**	**$ 26,800**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 26,800**	**$ 7,600**	**$ -**

NAIC
National Association of Insurance Commissioners

BUSINESS AND FISCAL IMPACT STATEMENT

DATE SUBMITTED:	AUGUST 14, 2009
NAME OF PROJECT/INITIATIVE:	SOLVENCY MODERNIZATION COURSE – NAIC EDUCATION & TRAINING DEPARTMENT WEBINAR
REGULATOR/BUSINESS SPONSOR:	SOLVENCY MODERNIZATION INITIATIVE (EX) TASK FORCE COMMISSIONER ALFRED GROSS, (VA) CHAIR
NAIC STAFF SUPPORT CONTACT INFORMATION:	JENNIFER PASSARIELLO, SR. EDUCATION & TRAINING MANAGER JPASSARI@NAIC.ORG 816-783-8203
REQUESTED PROJECT START DATE:	JANUARY 2010
ANTICIPATED COMPLETION DATE:	APRIL 2010 (COURSE DEVELOPMENT COMPLETION DATE)
TOTAL REVENUE AMOUNT GENERATED:	$22,560
TOTAL EXPENSE AMOUNT REQUESTED:	$2,625

I. Executive Summary:

This fiscal requests funding to develop and offer a new NAIC education and training course on Solvency Modernization in 2010, as part of the objectives of the Solvency Modernization Initiative (EX) Task Force. This educational briefing for both regulators and interested parties, seeks to provide an overview of the Solvency Modernization movement, as well as describe the European Union Solvency II framework and illustrate its potential impact on insurance companies.

While there continues to be some uncertainty about the future development of international solvency standards, as they continue to evolve, regulators agree this is a highly relevant and timely topic for updating and educating the insurance community at-large. The proposed titled webinar "What's Going On in the World: Informational Update on Solvency Modernization", would provide a large audience the opportunity to learn and participate in the discussion of this significant topic. In addition to this initial webinar, spin-off webinars on such topics as corporate governance, group supervision, and emerging news from the IAIS are potential course topics.

This project is important because new, timely, and relevant learning events added to the NAIC curriculum ensure it remains meaningful to regulators and insurance compliance professionals. Solvency modernization is a topic that has generated a lot of interest among our education and training participants. Insurance and regulatory compliance professionals are both asking how these emerging developments will impact them, and look to the NAIC as a source for direction and answers. The *Solvency Modernization* webinar can serve as an ideal mechanism in which to disseminate this information to a large group of interested parties in 2010.

The idea of a *Solvency Modernization* webinar was considered at our annual curriculum meeting of NAIC senior staff. This group believes interest in this topic will be high amongst a variety of insurance related audiences, as evidenced by inquiries the group has received to-date. In addition, webinars expenses present a lower financial risk than classroom course costs for the NAIC.

II. Benefits of Project/Initiative to NAIC Members:

The goal of any educational initiative is to affect a positive behaviour change among the students engaged in the training. The students enter into the learning experience with one set of capabilities, and emerge from that experience with a different set of capabilities. It is expected that those capabilities will be evidenced by changes in performance (behaviour) on the job. Courses in NAIC's curriculum are intended to facilitate performance improvement in one of two ways: either by helping regulators obtain the capabilities needed to regulate more effectively, or by assisting insurance professionals to obtain the capabilities needed to more effectively meet compliance standards. The *Solvency Modernization* webinar will do the latter by giving insurance professionals the information they need to prepare their companies for changes to existing solvency standards. NAIC members will also benefit from this training, as companies become more fully equipped to comply with regulatory requirements.

Additional benefits include:

- Improved positioning of the NAIC as a source for industry compliance training.
- Leveraged opportunity for the NAIC to assume the lead among competing training providers to offer this subject matter.

III. Stakeholders:

Stakeholders for this fiscal include the NAIC membership, state insurance regulators, U.S. and international supervisors, domestic and foreign insurance companies and NAIC staff.

IV. Business and Operational Impact:

To develop the new *Solvency Modernization* webinar would require resources from several NAIC subject matter experts. The Education and Training department staff would work with the NAIC Solvency Modernization Initiatives (EX) Task Force members and support staff to develop the course, which would include:

- Capital requirements segment would be coordinated by the Capital Adequacy (E) Task Force;
- International accounting materials would be developed by the Statutory Accounting Principles and the International Solvency & Accounting Working Groups;
- Group supervision content would be addressed by the Group Solvency Issues Working Group;
- Valuation issues in insurance content would be completed by the Principles-Based Reserving Working Group; and
- The reinsurance segment would be coordinated via the Reinsurance (E) Task Force.

Solvency Modernization is an instructional webinar being proposed for debut in the 2010 NAIC Education & Training department curriculum with instructional support from the International Relations and Regulatory Services Divisions.

Work tasks associated with this fiscal include:

Owner	Responsibilities
Education & Training staff	Event management, including budget oversight, marketing, general administration, registration, course development facilitation and coordination, instructional design services, webinar delivery and technology oversight, and NASBA compliance administration.
Actuarial & Statistics Services staff	Subject matter expertise, instruction, and participation on the course development team.
International Relations staff	Subject matter expertise, instruction, and participation on the course development team.
Financial Regulatory Services staff	Subject matter expertise, instruction, and participation on the course development team.
Legal Division staff	Subject matter expertise, instruction, and participation on the course development team.

V. Financial Impact:

See **Attachment I** for the breakdown of the revenue and expense associated with this project. In summary:

Proposed revenue:	$ 22,560
Proposed expense:	2,625
Revenue over expense:	$ 19,935

VI. Alternatives or Partnerships:

No partnerships were pursued for this project. Other training delivery mechanisms were explored, including traditional classroom delivery and online course delivery (multiple day session using our e-college vendor). Given our participants high preference for more on-line vs. traditional classroom training which requires travel time and expense; as well as the need for continuous updates to changing course content and the need for flexibility in disseminating "breaking news" on solvency modernization, the webinar format rated most appropriate delivery option to meet the intended audience needs.

VII. Risk Management:

- Success of the *Solvency Modernization* webinar would be evidenced by the total registration revenues generated and the cumulative participant evaluation ratings of the course.

- Risk of failure associated with this new course include:
  - Failure to provide a qualified presenter/subject matter expert who teaches delivers a course that is valuable to the participants.
  - Low enrollment could cause expenses to exceed revenues generated for a given webinar session.
  - The solvency modernization subject matter may be perceived by state insurance department regulators as a topic of high interest and outside demand, but with actual promotion and

deployment of the webinar, we could that interest is lower than expected from the intended audience, and thus investment in developing the course would not provide a positive return.

- An alternate risk involves not developing a solvency modernization course and it does become a high interest topic, whereby interested parties seek a commercial training provider to develop and teach the course, thereby risking a lost opportunity cost for the association.

ATTACHMENT I

Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

Project/Initiative: Solvency Modernization Webinar
2010 Budget

Description	2010 Annual Budget	January	February	March	April	May	June	July	August	September	October	November	December	2010 Total	2011 Budget	2012 Budget
		2010 Budget Spread														
Revenues:																
Revenue Line (Tuition)					$ 22,560									$ 22,560	$ 22,560	
Total Revenues	-	-	-	-	**22,560**	-	-	-	-	-	-	-	-	**22,560**	**22,560**	-
Expenses:																
Postage/Freight					625									625	625	
Conference Calls					2,000									2,000	2,000	
Evaluation fees (eCollege)															150	
Total Expenses	-	-	-	-	**2,625**	-	-	-	-	-	-	-	-	**2,625**	**2,625**	-
Revenues Over (Under) Expense	-	-	-	-	**$ 19,935**	-	-	-	-	-	-	-	-	**$ 19,935**	**$ 19,935**	-

Note that in 2011, if this course is offered again, we will budget for approximately $150 in expenses for evaluation fees .

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2010 BUDGET
UNRESTRICTED NET ASSETS

	Total	Allocated (3)	Regulatory Modernization and Initiatives Fund (4)
2005 Ending Balance	$ 54,353,517	$ 53,524,074	$ 829,443
2006 Revenues Over/(Under) Expenses	4,976,189		
Minimum Pension Liability Adjustment (FAS 87) (1)	(677,226)		
2006 Ending Balance	58,652,480	57,770,373	882,107
2007 Revenues Over/(Under) Expenses	5,528,315		
Defined Benefit Plan Adjustment (FAS 158) (2)	(4,573,512)		
2007 Ending Balance	59,607,283	58,685,972	921,311
2008 Revenues Over/(Under) Expenses	(4,781,930)		
Defined Benefit Plan Adjustment (FAS 158) (2)	(6,448,685)		
2008 Ending Balance	48,376,668	47,455,357	921,311
2009 Projected Revenues Over/(Under) Expenses	2,848,416		
2009 Projected Ending Balance	51,225,084	50,456,708	768,376
2010 Proposed Revenues Over/(Under) Expenses	2,803,641		
2010 Proposed Ending Balance Before Business and Fiscal Impact Statemen	54,028,725	53,218,294	810,431
2010 Proposed Business and Fiscal Impact Statements	(140,370)		
2010 Proposed Ending Balance After Business and Fiscal Impact Statements	$ 53,888,355	$ 53,080,030	$ 808,325

(1) On December 31, 2005, the NAIC recorded a minimum pension liability adjustment in compliance with Statement of Financial Accounting Standards (FAS) No. 87, Employers' Accounting for Pensions. This liability increased at December 31, 2006.

(2) Statement of Financial Accounting Standards (FAS) No. 158, Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans requires plan sponsors to reflect the funded status of their defined benefit plans on a company balance sheet on a projected benefit obligation basis. This is accomplished through an adjustment to unallocated net assets, or net equity of the Association, and results from the actual performance of the NAIC's defined benefit plan compared to assumed performance of investments, discount rates and covered participants. The NAIC implemented FAS 158 in 2007 and reported previously disclosed but unrecognized gains/losses as a component of unrestricted net assets. Based on (1) investment loss variance from assumption in December 2007, (2) investment losses compared to a 7% annual return assumption and (3) a $1.3 million increase in pension liability arising from one final assumption change related to timing of payouts to vested terminated participants between the ages of 55 and 65, the NAIC recorded an additional $6.4 million in plan losses at 12/31/08.

It is important to note this accumulated plan loss should remain constant in future periods where the plan performs in line with assumptions and theselosses will reduce in periods where the plan outperforms plan assumptions. Of course, there is the possibility the loss grows in periods where the plan underperforms the assumptions, all of which are disclosed in the NAIC 2007 Annual Report.

(3) In 2004, the Internal Administration (EX1) Subcommittee revised its operating reserve policy to target a 100% allocation of the next years budgeted operating expenses and requested a formal review of the appropriateness of the reserve level. In August 2005, as a result of analysis of the operating reserve performed by an independent consultant to (1) evaluate the NAIC's reserve policy, (2) review the risks and uncertainties facing the NAIC, and (3) make a recommendation for a prudent operating reserve policy, the NAIC Executive Committee adopted a revised operating reserve policy, representing an 80% liquid reserve target. The NAIC defines this liquid reserve target as the ratio of consolidated net assets less fixed assets to consolidated operating expenses for the upcoming year.

(4) The NAIC instituted the Regulatory Modernization and Initiatives Fund in 2004 during the 2005 budget process to manage spending beyond the proposed budget by establishing spending guideline for new initiatives and proposals submitted subsequent to the annual budget presentation. The fund balance was established at 1.5% of budgeted consolidated net assets.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

Date: November 18, 2009

To: All NAIC Members and Interested Parties

From: Terri Vaughan, Chief Executive Officer
Andy Beal, Chief Operating Officer and Chief Legal Officer
Brady Kelley, Chief Financial and Business Strategy Officer

Re: Program Budget

The purpose of NAIC program budgeting is to illustrate the NAIC's budgeted revenues and expenses allocated across three broad categories, including Solvency Regulatory Support, Market Regulatory Support and General Regulatory Support.

At the direction of the membership, NAIC staff prepared the first program budget in early 1996, using a crosswalk methodology to convert the conventional budget to a program-reporting format based upon program categories established by the Strategic Framework (EX1) Working Group. Since that time, continual refinements have been made to the program budget process to accommodate changes in NAIC programs and initiatives and to provide for a more precise crosswalk and illustration. The method of allocation used in preparing the 2010 program budget is consistent with previous years.

The NAIC has dedicated a great deal of time and resources to the program budget process. However, the allocation of certain revenues and expenses not directly related to individual programs requires significant judgment and estimation. NAIC management has analyzed these allocation methods and believes they represent reasonable estimates of the NAIC resources dedicated to each NAIC program.

Please fee free to contact us at (816) 783-8011 with any questions. Thank you!

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www.naic.org

National Association of Insurance Commissioners
2010 Program Budget

	Solvency Regulatory Support	Market Regulatory Support	General Regulatory Support	Total Regulatory Support
State Assessments	$ -	$ -	$ 2,162,611	$ 2,162,611
Database Filing Fees	25,789,955	-	-	25,789,955
Publications and Insurance Data Products	15,526,575	1,530,862	1,350,757	18,408,194
Services	9,613,348	6,126,311	-	15,739,659
National Meeting Registration Fees	678,919	579,565	397,416	1,655,900
Investment Income	1,154,636	184,606	94,146	1,433,388
Education Programs	508,482	95,831	338,331	942,644
Administrative Services/License Fees/Revenue Sharing	-	7,492,663	-	7,492,663
Miscellaneous Income	15,755	6,319	1,286	23,360
Total Revenues	53,287,670	16,016,157	4,344,547	73,648,374
Salaries	$ 16,683,379	$ 9,951,096	$ 5,574,085	$ 32,208,560
Temporary Personnel	30,004	28,014	17,563	75,581
Payroll Taxes	1,184,165	741,364	354,983	2,280,512
Employee Benefits	3,607,635	1,847,316	1,205,350	6,660,301
Employee Development	273,214	229,697	114,387	617,298
Professional Services	1,213,149	1,380,447	892,359	3,485,955
Computer Services	1,082,988	80,700	185,701	1,349,389
Travel	800,323	760,125	800,884	2,361,332
Occupancy	2,923,026	1,928,320	989,619	5,840,965
Equipment Rental/Maintenance	1,551,476	181,876	785,455	2,518,807
Depreciation	1,455,838	727,919	242,640	2,426,397
Telephone	159,557	135,567	63,587	358,711
Other Supplies	199,821	63,736	94,922	358,479
Mail Services	102,888	71,879	61,027	235,794
Reference Materials	343,691	104,186	99,741	547,618
Printing	78,036	50,446	48,223	176,705
National & Interim Meetings	511,998	389,968	276,899	1,178,865
Education Programs & Communications	430,695	219,117	1,754,513	2,404,325
Miscellaneous Expenses	423,696	1,305	1,238	426,239
Overhead	2,755,044	1,833,571	884,655	5,473,270
Total Expenses	35,810,623	20,726,649	14,447,831	70,985,103
Revenues Over/(Under) Expenses	$ 17,477,047	$ (4,710,492)	$ (10,103,284)	$ 2,663,271
Revenue Percentage	72.354%	21.747%	5.899%	100.000%
Expense Percentage	50.449%	29.199%	20.352%	100.000%

2010 Program Budget
Solvency Regulatory Support

	Financial Reporting	Early Warning Financial Analysis	Securities Valuation Office	Accreditation	Insolvency (Legal)	Reinsurance	Education and Training	Examinations	Research Support Including RBC	Solvency-Only Publications	Government Relations including International	Solvency Meetings	Solvency Computer Applications	Total Solvency Regulatory Support
State Assessments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Database Filing Fees	25,789,955	-	-	-	-	-	-	-	-	-	-	-	-	25,789,955
Publications/Subscriptions	13,095,207	-	-	-	-	-	-	-	-	2,431,364	-	-	-	15,526,571
Services	-	-	8,563,450	-	-	-	-	-	-	-	557,750	492,148	-	9,613,348
National Meeting Registration Fees	-	-	-	-	-	-	-	-	-	-	-	678,920	-	678,920
Interest Income	861,485	-	189,720	-	-	-	11,265	-	-	53,866	12,357	25,945	-	1,154,638
Education Programs	-	-	-	-	-	-	508,482	-	-	-	-	-	-	508,482
Administrative Svcs/License/Revenue Sharing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indirect Miscellaneous Income	11,755	-	2,589	-	-	-	154	-	-	735	169	354	-	15,756
Total Revenues	39,758,402	-	8,755,759	-	-	-	519,901	-	-	2,485,965	570,276	1,197,367	-	53,287,670
Salaries	$ 2,626,756	$ 1,393,601	$ 6,002,357	$ 260,045	$ 193,704	$ 115,707	$ 523,713	$ 278,798	$ 700,811	$ 643,504	$ 1,122,912	$ 111,158	$ 2,710,312	$ 16,683,378
Temporary Personnel	-	-	-	-	-	-	-	-	-	-	-	30,004	-	30,004
Payroll Taxes	196,775	103,756	387,362	24,125	14,058	8,582	39,033	20,722	48,927	47,245	75,029	8,604	209,948	1,184,166
Employee Benefits	568,015	301,356	1,297,957	56,230	41,890	25,021	113,245	60,288	151,542	139,153	242,818	24,035	586,085	3,607,635
Employee Development	26,703	11,346	34,841	3,922	2,857	886	5,690	2,210	16,231	3,809	105,375	18,399	40,945	273,214
Professional Services	20,896	-	47,977	612,420	41,347	-	3,087	-	340	67,382	2,270	16,367	401,063	1,213,149
Computer Services	-	-	637,517	-	-	-	6,228	-	-	61,749	-	-	377,494	1,082,988
Travel	36,164	113,635	77,658	18,606	9,889	2,955	8,732	6,316	43,233	85,279	276,076	62,408	59,372	800,323
Occupancy	525,742	262,486	756,904	46,233	30,382	22,631	140,888	53,409	108,355	168,268	259,713	-	548,016	2,923,027
Equipment Rental/Maintenance	53,658	1,900	18,065	-	-	-	13,052	-	-	30,694	4,536	5,758	1,423,813	1,551,476
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	1,455,838	1,455,838
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Telephone	24,294	24,028	5,406	2,235	2,267	2,625	3,137	5,482	18,257	1,568	29,739	19,219	21,299	159,556
Other Supplies	23,009	841	23,243	646	329	77	9,083	176	2,254	25,651	3,771	4,192	106,550	199,822
Mail Services	2,757	1,762	6,590	1,348	197	193	617	402	889	66,177	2,372	18,736	849	102,889
Reference Materials	2,016	1,686	297,175	50	329	168	325	367	31,704	455	8,887	-	528	343,690
Printing	-	-	143	-	329	-	-	-	-	74,618	240	2,706	-	78,036
National & Interim Meetings	-	-	-	-	-	-	-	-	-	-	-	511,998	-	511,998
Education Programs & Communications	9,733	-	-	-	-	-	417,718	-	-	-	-	-	3,244	430,695
Miscellaneous	400,000	-	-	-	-	-	-	-	243	915	-	22,538	-	423,696
Overhead	510,454	270,190	698,204	27,196	31,273	23,295	137,389	54,975	111,536	149,253	142,068	23,201	576,009	2,755,043
Total Expenses	5,026,972	2,486,587	10,291,399	1,053,056	368,851	202,140	1,421,937	483,145	1,234,322	1,565,720	2,275,806	879,323	8,521,365	35,810,623
Revenues Over/(Under) Expenses	$ 34,731,430	$ (2,486,587)	$ (1,535,640)	$ (1,053,056)	$ (368,851)	$ (202,140)	$ (902,036)	$ (483,145)	$ (1,234,322)	$ 920,245	$ (1,705,530)	$ 318,044	$ (8,521,365)	$ 17,477,047

2010 Program Budget
Market Regulatory Support

	Technical Assistance	Education and Training	Other Committee Support	Market Regulation and Research Support	Market-Related Publications	Market Meetings	Government Relations including International	Market Computer Applications	Total Market Regulatory Support
State Assessments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Database Filing Fees	-	-	-	-	-	-	-	-	-
Publications/Subscriptions	-	-	-	-	1,530,862	-	-	-	1,530,862
Services-State Based Systems/SERFF	-	-	-	-	-	-	-	6,126,311	6,126,311
National Meeting Registration Fees	-	-	-	-	-	579,565	-	-	579,565
Interest Income	-	885	-	-	17,881	6,769	-	159,071	184,606
Education Programs	-	95,831	-	-	-	-	-	-	95,831
Administrative Svcs/License/Revenue Sharing	-	-	-	-	-	-	-	7,492,663	7,492,663
Indirect Miscellaneous Income	-	12	-	3,800	244	92	-	2,171	6,319
Total Revenues	-	96,728	-	3,800	1,548,987	586,426	-	13,780,216	16,016,157
Salaries	$ 822,153	$ 387,544	$ 812,347	$ 412,419	$ 388,232	$ 107,427	$ 1,037,836	$ 5,983,139	$ 9,951,097
Temporary Personnel	-	-	-	-	-	25,614	-	2,400	28,014
Payroll Taxes	56,690	29,329	61,244	27,870	28,594	8,384	68,657	460,596	741,364
Employee Benefits	177,785	83,802	175,663	89,182	83,952	23,228	224,420	989,284	1,847,316
Employee Development	22,064	5,442	10,793	10,658	2,344	1,998	104,677	71,721	229,697
Professional Services	34,504	8,415	113,539	2,673	44,316	29,291	1,136	1,146,574	1,380,448
Computer Services	-	2,768	-	-	38,879	-	-	39,053	80,700
Travel	66,242	22,951	93,283	33,810	57,246	59,838	161,206	265,549	760,125
Occupancy	115,976	92,980	139,689	59,702	102,389	21,960	243,221	1,152,402	1,928,319
Equipment Rental/Maintenance	-	5,801	-	-	19,326	4,916	4,536	147,297	181,876
Depreciation	-	-	-	-	-	-	-	727,919	727,919
Insurance	-	-	-	-	-	-	-	-	-
Telephone	19,950	2,392	13,281	9,806	552	16,406	27,840	45,340	135,567
Other Supplies	3,239	4,259	1,421	1,985	16,169	3,787	3,696	29,180	63,736
Mail Services	970	561	1,672	542	41,676	16,571	2,208	7,679	71,879
Reference Materials	47,272	59	-	47,029	223	-	8,786	817	104,186
Printing	243	-	671	-	46,982	2,310	240	-	50,446
National & Interim Meetings	-	-	-	-	-	389,968	-	-	389,968
Education Programs & Communications	-	201,877	671	-	-	-	-	16,569	219,117
Miscellaneous Expenses	364	-	-	364	576	-	-	-	1,304
Overhead	119,380	92,693	143,787	61,454	90,311	22,606	125,092	1,178,248	1,833,571
Total Expenses	1,486,832	940,873	1,568,061	757,494	961,767	734,304	2,013,551	12,263,767	20,726,649
Revenues Over/(Under) Expenses	$ (1,486,832)	$ (844,145)	$ (1,568,061)	$ (753,694)	$ 587,220	$ (147,878)	$ (2,013,551)	$ 1,516,449	$ (4,710,492)

2010 Program Budget
General Regulatory Support

	Communications including Media Training	Commissioner Membership Services	Information/ Research	General Meetings	Other Committee Support	Legal	Education and Training not otherwise classified	General Computer Applications	Government Relations including International	Total General Regulatory Support
State Assessments	$ -	$ 2,162,611	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,162,611
Database Filing Fees	-	-	-	-	-	-	-	-	-	-
Publications/Subscriptions	-	-	1,350,757	-	-	-	-	-	-	1,350,757
Services	-	-	-	-	-	-	-	-	-	-
National Meeting Registration Fees	-	-	-	397,416	-	-	-	-	-	397,416
Interest Income	-	49,265	30,053	8,842	-	-	5,986	-	-	94,146
Education Programs	-	51,650	-	-	-	-	286,681	-	-	338,331
Administrative Svcs/License/Revenue Sharing	-	-	-	-	-	-	-	-	-	-
Indirect Miscellaneous Income	-	672	410	121	-	-	83	-	-	1,286
Total Revenues	-	2,264,198	1,381,220	406,379	-	-	292,750	-	-	4,344,547
Salaries	$ 492,061	$ 1,056,523	$ 639,428	$ 260,554	$ 161,700	$ 332,665	$ 332,351	$ 1,584,851	$ 713,948	$ 5,574,081
Temporary Personnel	-	-	-	17,563	-	-	-	-	-	17,563
Payroll Taxes	37,704	45,593	40,169	12,622	9,611	24,144	21,780	121,484	41,877	354,984
Employee Benefits	106,408	228,464	138,267	56,344	34,967	71,934	71,870	342,710	154,386	1,205,350
Employee Development	1,265	12,638	8,733	4,111	2,473	4,907	4,370	20,648	55,241	114,386
Professional Services	621,940	18,696	78,105	26,284	6,874	71,010	6,017	58,865	4,568	892,359
Computer Services	-	-	-	-	-	-	3,460	182,241	-	185,701
Travel	86,357	467,613	61,708	58,802	6,353	16,985	7,032	10,824	85,211	800,885
Occupancy	92,465	167,587	133,648	44,126	27,305	52,177	82,189	237,678	152,444	989,619
Equipment Rental/Maintenance	500	-	17,053	3,372	-	-	7,251	755,011	2,268	785,455
Depreciation	-	-	-	-	-	-	-	242,640	-	242,640
Insurance	-	-	-	-	-	-	-	-	-	-
Telephone	-	10,372	5,877	13,680	1,662	3,894	1,439	10,314	16,350	63,588
Other Supplies	13,154	4,162	15,283	3,061	632	564	5,358	50,261	2,448	94,923
Mail Services	1,325	4,108	37,829	13,449	740	339	796	438	2,004	61,028
Reference Materials	-	94,063	201	-	10	564	73	437	4,393	99,741
Printing	4,500	-	41,455	1,584	-	564	-	-	120	48,223
National & Interim Meetings	-	-	-	276,899	-	-	-	-	-	276,899
Education Programs & Communications	-	1,545,235	-	-	-	-	207,655	1,623	-	1,754,513
Miscellaneous Expenses	-	729	509	-	-	-	-	-	-	1,238
Overhead	95,178	111,495	107,481	30,678	16,656	53,708	70,931	318,987	79,541	884,655
Total Expenses	1,552,857	3,767,278	1,325,746	823,129	268,983	633,455	822,572	3,939,012	1,314,799	14,447,831
Revenues Over/(Under) Expenses	$ (1,552,857)	$ (1,503,080)	$ 55,474	$ (416,750)	$ (268,983)	$ (633,455)	$ (529,822)	$ (3,939,012)	$ (1,314,799)	$ (10,103,284)

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Draft: 9/21/09
Adopted by the Life and Health Actuarial Task Force, 9/21/09.

ACTUARIAL GUIDELINE XXXIII

DETERMINING CARVM RESERVES FOR ANNUITY CONTRACTS WITH ELECTIVE BENEFITS

Background Information

1. Introduction

The Standard Valuation Law (SVL) defines the methods and assumptions which are to be used in determining minimum statutory formula reserves. This law establishes the standards for annuity contracts (which therefore includes any annuity riders or endorsements, and any or all components of which, such as premiums, benefits, contract charges, primary or secondary accumulation values or other components, either relating to annuity benefits provided by the contract or providing separate annuity benefits) and includes the criteria for the interest and mortality assumptions to be used in determining minimum formula contract reserves. The 1980 revisions to the SVL provide for the maximum statutory formula reserve interest rate to be determined through a dynamic formula in order to incorporate changes in economic conditions, liquidity needs and the risks inherent in certain types of contracts.

The SVL defined methodology for annuity contracts, the commissioners annuity reserve valuation method (CARVM), requires that reserves be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contracts, that become payable prior to the end of such respective contract year. Such reserves are established to adequately fund all guaranteed contract obligations, including those obligations which are optional to the contract owner and which may not have yet been elected.

Industry practices and methods of reserving under CARVM for annuity contracts with multiple benefit streams have not been found to be consistent. These range from a low reserve equal to the cash surrender value to a reserve representing the greatest actuarial present value of the future benefit streams under all potential annuity or other nonforfeiture benefit election options using a conservative rate of interest.

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. Some of the areas requiring clarification include: the valuation of annuitization benefits; the application of incidence rates in CARVM; the application of the integrated benefit stream approach in CARVM; how to determine valuation interest rates and mortality tables for multiple benefit streams; and certain practical considerations regarding multiple benefit streams.

2. Annuitization Benefits

Varying forms of contracts provide that the cash value available to the contract owner is less than the amount available to purchase an annuitization option under the terms of the contract.

For purposes of this Actuarial Guideline, “accumulation fund” is defined as the policy value which is used to purchase an annuity option under the terms of the contract.

Frequently there are significant discontinuities in the reserves, both upward and downward, at the time a settlement option is elected, between the reserve held immediately prior to the settlement as compared to the reserve required for the greatest actuarial present value of the annuitization option elected.

One of the most significant reasons for discontinuities in the reserve patterns at the time of election is the difference in the SPIA valuation rate available at the time of election as compared to the valuation rate used based on the date of issue of the original SPDA contract. Another significant reason is the difference between the guaranteed purchase rate contained in the contract and used for reserve development as compared to the rate actually used to purchase the annuity option at the time of election.

3. Application of Incidence Rates in CARVM

Since CARVM was adopted, there has been an increase in the types of benefits offered under certain annuity contracts, including enhanced death benefits, nursing home benefits, and various partial withdrawal provisions. For some of these benefit types, the SVL is not explicit as to whether incidence tables prescribed under the SVL may be used to determine such benefits, versus requiring consideration of all contract owner options available under the contract, and choosing the set of incidence rates which produce the greatest present value.

4. Integrated Benefit Stream Approach

CARVM requires that reserves be based on the greatest present value of all potential future guaranteed benefits. For annuity contracts offering more than one type of potential benefit stream, the SVL is not explicit regarding whether or how blends of more than one type of benefit must be considered under CARVM.

Under the integrated benefit stream approach, any potential benefit stream must be considered, including blends reflecting the interaction of more than one type of benefit. Such potential benefit streams include all types of benefits for which the greatest present value concept is required. Additionally, adjustments must be made to all such potential benefit streams to reflect those benefit types for which prescribed incidence tables are required (e.g., death benefits).

For example, consider an annuity contract offering surrender, annuitization and death benefits. Potential benefit streams that would be considered include surrender streams, annuitization streams, and streams reflecting blends of surrender and annuitization benefits. All such streams would also be adjusted to reflect death benefits and to discount all benefits for survivorship (based on the mortality table prescribed in the SVL).

5. Valuation Interest Rates

For annuities offering more than one type of benefit, the SVL is not explicit as to how valuation interest rates should be determined. The SVL is also not explicit as to how valuation interest rates should be determined for certain types of benefits offered under annuity contracts, such as death and nursing home benefits.

Purpose

The purpose of this Actuarial Guideline is to codify the basic interpretation of CARVM and does not constitute a change of method or basis from any previously used method, by clarifying the assumptions and methodologies which will comply with the intent of the SVL. This Actuarial Guideline shall apply to all annuity contracts subject to CARVM, where any elective benefits (as defined below) are available to the contract owner under the terms of the contract. However, life or health insurance riders attached to an annuity contract, where all components of the rider (e.g., premiums, benefits, contract charges, accumulation values and other components) are separate and distinct from the components of the annuity contract, should be treated as a separate life or health insurance contract not subject to this Actuarial Guideline. While this Actuarial Guideline applies to all annuity contracts subject to CARVM, in the event an actuarial guideline or regulation dealing with reserves is developed for a specific annuity product design, the product specific actuarial guideline or regulation will take precedence over the Actuarial Guideline.

Definitions

1. Elective and Non-Elective Benefits in CARVM

For purposes of determining reserves under CARVM, each benefit available under the annuity contract must be placed into one of the two categories defined as follows:

Non-Elective Benefits: Benefits that are payable to contract owners or beneficiaries only after the occurrence of a contingent or scheduled event independent of a contract owner's election of an option specified in the contract, including (but not limited to) death benefits, accidental death benefits, disability benefits, nursing home benefits, and benefits payable under either a deferred or immediate annuity contract (with or without life contingencies), where no benefit options are available under the terms of the contract.

Elective Benefits: Benefits that do not fall under the non-elective benefits category (i.e., benefit options that may be freely elected under the terms of the contract). Elective benefits include (but are not limited to) full surrenders, partial withdrawals, and full and partial annuitizations.

In some cases it may not be clear whether some benefits are elective or non-elective. For example, some annuity contracts offer benefits which vary depending upon the age of retirement. In such cases, the Valuation Actuary should use judgment in making this determination, by considering factors such as the degree to which contract owner actions would be influenced by the availability of the benefit.

2. Elective and Non-Elective Incidence Rates in CARVM

For non-elective benefits, incidence rates from tables prescribed by the SVL should be applied to determine the payment of non-elective benefits and to discount, for survivorship, all benefit payments included in an Integrated Benefit Stream, as defined below. If no incidence tables are prescribed by the SVL, then company or industry experience (with margins for conservatism) may be used, as appropriate. Annuity mortality tables prescribed by the SVL should be used to determine all mortality based benefits under the contract (including, but not limited to, annuitizations and death benefits) and to discount other types of benefit payments for survivorship.

For elective benefits, incidence rates should not be based on tables reflecting past company experience, industry experience or other expectations. Instead, every potential guaranteed elective benefit stream required to be reserved by CARVM must be considered in the determination of integrated benefit streams as defined below. This is accomplished by considering trial sets of guaranteed elective benefit incidence rates, either through numerical testing or analytical means, to determine which trial set produces the “greatest present value” as described in Text paragraph 1 below. Theoretically, this means that all possible elective benefit incidence rates between 0% and 100% should be considered. However, in practice, such a greatest present value will typically occur by assuming an incidence rate of either 0% or 100%.

3. Integrated Benefit Stream

An integrated benefit stream is one potential blend of guaranteed elective and non-elective benefits available under the contract, determined as the combination of A and B, where:

A equals one potential stream of one or more types of guaranteed elective benefits available under the terms of the contract, based upon a chosen set of elective benefit incidence rates; and

B equals the stream of all guaranteed non-elective benefits provided under the terms of the contract, recognizing the guaranteed elective benefit stream under consideration in A above, and the non-elective incidence rates defined in 2. above.

Both A and B above should be discounted for survivorship, based on the non-elective incidence rates defined in 2. above.

<u>Text</u>

1. Greatest Present Value

All guaranteed benefits potentially available under the terms of the contract must be considered in the valuation process and analysis and the ultimate policy reserve held must be sufficient to fund the greatest present value of all potential integrated benefit streams, reflecting all guaranteed elective and non-elective benefits available to the contract owner. Each integrated benefit stream available under the contract must be individually valued and the ultimate reserve established must be the greatest of the present values of these values, based on valuation interest rate(s) as defined in Section 3 below.

2. Examples of Integrated Benefit Streams That Must Be Considered

   A. Cash Value Streams

   One mandatory set of integrated benefit streams for a deferred annuity with cash settlement values which must always be considered is any possible blend of future guaranteed partial withdrawals and full surrenders available under the contract, as specified in the SVL, accumulated at the guaranteed credited interest rate(s) and discounted at the valuation rate(s) of interest defined in section 3 below, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

   B. Annuitization Streams

   A second mandatory set of integrated benefit streams that must be considered is any possible blend of future guaranteed full or partial annuitization elections, as specified in the SVL, available to the contract owner at each election date required by CARVM, with appropriate recognition of all guaranteed non-elective benefits available under the terms of the contract. In determining the integrated benefit streams to value the annuitization option, the guaranteed purchase rates contained in the contract, as well as any other contract provisions, excluding any current purchase rates which may be applicable, are applied to the accumulation fund.

   C. Other Elective Benefit Streams

   In addition to the cash value and annuitization streams described above, all other possible guaranteed elective benefits available under the contract, including blends of more than one type of guaranteed elective benefit, must be considered in a manner consistent with the mandatory cash value and annuitization streams, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

3. Determination of Valuation Interest Rates

   Section 4b of the SVL determines valuation rates for an annuity contract based on the following Parameters:

   A. The basis of valuation (issue year or change in fund);
   B. Whether or not the annuity provides for cash settlement options;
   C. Whether interest is guaranteed on premiums received more than 12 months following issue (or the valuation date for change in fund basis);
   D. The guarantee duration; and
   E. The Plan Type.

   Parameters A, B and C above should be determined at a contract level. Additional requirements regarding the change in fund basis of valuation are set forth in Section 5 below. Parameters D and E should be determined at a benefit level, as set forth in Section 4 below.

   Under a contract level determination, parameters are set based on the characteristics of the contract as a whole. Under a benefit level determination, parameters are set based on the characteristics of each benefit, resulting in potentially different valuation rates for each benefit type comprising the integrated benefit stream.

4. Determination of Guarantee Duration and Plan Type

   Guarantee duration and Plan Type are based upon the specific characteristics of each individual benefit type that comprise the integrated benefit stream, as follows:

   A. For portions of the integrated benefit stream attributable to full surrender and partial withdrawal benefits, the Plan Type should be based upon the withdrawal characteristics of the benefit, as stated in the contract. This may result in a Plan Type A, B or C under the 1980 amendments of the SVL. The guarantee duration is the number of years for which interest rates are guaranteed in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years.

B. For portions of the integrated benefit stream attributable to full and partial annuitization benefits, the determination of the valuation interest rate involves the use of the appropriate Plan Type and weighting factor as determined by the SVL, with the guarantee duration as the number of years from the original date of issue or date of purchase, to the date the annuitization is assumed to commence. If the underlying assumption is that the contract owner may withdraw funds only as an immediate life annuity or as installments over 5 years or more, this will generally result in a Plan Type A, under the 1980 amendments of the SVL, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL. An assumed annuitization option which has a non-life contingent payout period of less than five (5) years shall be considered a Plan Type C, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL.

C. For portions of the integrated benefit stream attributable to non-elective benefits, since the underlying assumption is that no withdrawal is permitted, Plan Type A should generally be used, with a guarantee duration determined as the number of years from issue or purchase to the date non-elective benefits may first be paid. In most cases, the guarantee duration should be less than five years, since non-elective benefit coverage usually begins immediately after issue, with benefits payable commencing in the first contract year.

For benefit types incorporating multiple payments, paragraphs 4(A), 4(B), and 4(C) above should be applied to each separate payment according to the withdrawal, annuitization, or non-elective benefit characteristics of the contract and payment provisions at the time each payment is to be made. If a portion of the integrated benefit stream is part of an immediate life annuity or a series of installments over five (5) years or more, but can be changed directly or indirectly by exercise of contract owner withdrawal options, then it would be inappropriate to apply paragraph 4(B) to that portion of the integrated benefit stream, since the contractholder may withdraw funds other than as a life annuity or in installments of five (5) years or more.

For example, a Guaranteed Lifetime Income Benefit (GLIB) is a guarantee to the owner of a fixed deferred annuity contract, whether traditional or indexed to an external referent such as an equity index, that the owner can have a defined income for life in an amount determined by formula, while the owner retains traditional rights (such as withdrawal) to the other values provided by the underlying deferred annuity and while such values continue to exist. Income benefits are typically deducted from one or more of the annuity's defined values to the extent such values remain positive. Once the GLIB is elected, the contract owner may have rights to stop and restart the income benefit and may also request full or partial surrender of any remaining annuity value, though doing so may negatively impact or eliminate subsequent guaranteed income benefits. Thus, applying 4(A) and 4(B) above, the GLIB benefit stream is seen to be composed of two portions to determine the Plan Type and guarantee duration, as follows:

The first portion consists of the series of defined payments to the extent that the payments, or any fraction thereof, are withdrawals that reduce or deplete the annuity's defined values. Applying paragraph 4(A) to this portion would result in Plan Type A, Plan Type B, or Plan Type C, by following the definitions of such contained within the Standard Valuation Law and reflecting the specific contract provisions, especially with regard to withdrawal. Paragraph 4(A) would also apply to any residual withdrawals that can be made following election of the GLIB benefit.

The second portion is a life annuity without option to take or receive additional amounts under the contract, and consists of the payments not included in the above portion. Applying paragraph 4(B), Plan Type A would generally apply to this segment with the guarantee duration determined using the period from contract issue to commencement of payments in this second portion.

5. Change in Fund Basis

As indicated by section 4b.C.(1)(c)(vi) of the SVL, a company may elect to value annuity contracts with cash settlement options on either an issue year basis or on a change in fund basis. Annuity contracts with no cash settlement options must be valued on an issue year basis. The issue year basis or change in fund basis should be determined for the contract as a whole, and thus must be consistently applied to all portions of all integrated benefit streams available under the annuity contract. The election of issue year or change in fund basis must be made at the issuance of the contract and must not change during the term of the contract without the prior written approval of the commissioner.

6. Purchase Rates

Contracts may provide, as contractual guarantees, the use of preferential purchase rates to those listed in the contract. As an example, a contract may provide that the company will offer, at the time of annuitization, the rates offered to new purchasers of immediate annuities if such rates will provide a higher annuity benefit than would result from the contractually guaranteed rates provided in the contract. This creates a contract guarantee which must be valued under CARVM. Ignoring this benefit in determining reserves will produce reserves less than the statutory formula reserves required under CARVM. Valuation of this benefit, however, is complicated by the fact that the company does not currently know what the exact rate will be at the time of the settlement election. In order to determine conservative statutory formula reserves, if use of future unknown rates are guaranteed, the company shall establish reserves not less than the contract's accumulation fund value, on the valuation date, reduced by an "expense allowance" not to exceed 7% of such fund. This section does not require the calculation of a reserve for the annuitization of business based upon current purchase rates pursuant to the "annuitization streams" described in Paragraph 2.B. above.

Likewise for contracts which provide for additional amounts during the payout period over those guaranteed at the commencement of the annuity payments, the reserve during the deferred period shall not be less than the contract's accumulation fund reduced by an expense allowance not to exceed 7% of such fund.

7. Practical Considerations

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. However, in practice there may be other acceptable methods of applying CARVM which are substantially consistent with the methods described in this Actuarial Guideline. Such methods may also be used, with prior regulatory approval.

Additionally, in applying this Actuarial Guideline there may theoretically be an infinite number of contract owner options that are possible under the contract. However, it may not be practical, possible or even appropriate to test every conceivable combination of potential integrated benefit streams theoretically available under the contract. This Actuarial Guideline requires that the actuary consider, not necessarily test, all potential integrated benefit streams to determine to what extent each contract owner option has a material impact on the reserve. In practice, the actuary may be able to eliminate some potential integrated benefit streams by analytical methods. The actuary may also be able to demonstrate the reserve adequacy of certain approximations. For example, in certain situations it may be shown that a CARVM reserve ignoring non-elective benefits, plus an "add-on" reserve for non-elective benefits, is a reasonable approximation for the theoretically correct CARVM reserve.

Effective Date

This guideline shall be effective on December 31, 1998 affecting all contracts issued on or after January 1, 1981. A company may request a grade-in period for contracts issued prior to December 31, 1998 from the domiciliary commissioner upon satisfactory demonstration that the method and level of current reserves held for such contracts are adequate in the aggregate. This phase-in will require establishment of no less than 33 1/3% of the additional reserves resulting from the application of this guideline on December 31, 1998, no less than 66 2/3% on December 31, 1999, and 100% by December 31, 2000.

Project History

**ACTUARIAL GUIDELINE XXXIII
DETERMINING CARVM RESERVES
FOR ANNUITY CONTRACTS WITH ELECTIVE BENEFITS**

1. Description of the Project, Issues Addressed, etc.

This project provides guidance on the interpretation of the Standard Valuation Law in the calculation of reserves on a guaranteed lifetime income benefits offered on fixed deferred annuities. This benefit is a guarantee to the contract owner of a defined income for life with an amount defined by formula without the loss of control over the principal amount.

Section 4b of the Standard Valuation Law defines the interest rate to be used in determining the minimum standard for reserves. There are different interest rates depending on withdrawal provisions in the contract.

Actuarial Guideline XXXIII, which was adopted in 1994 and modified in 1998, is an interpretation of Section 4b for benefit options that may be freely elected under the terms of the contract. The guaranteed lifetime income benefit is a benefit option that may be freely elected by the contract owner, but it is not clear how to apply the interpretation of Actuarial Guideline XXXIII to this option.

2. Name of Group Responsible for Drafting the Model and States Participating

The 2009 members of the Life and Health Actuarial Task Force are: Kansas (Chair), South Carolina (Vice-Chair), Alabama, Alaska, Arkansas, California, Connecticut, Florida, Hawaii, Minnesota, Missouri, Nebraska, New York, Ohio, Oklahoma, Texas, and Utah.

3. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

The Task Force asked to American Academy of Actuaries to review the guaranteed lifetime income benefit and recommend modifications to Actuarial Guideline XXXIII.

4. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The efforts of the Task Force were closely coordinated with all industry interested parties. In addition to open sessions at the 2009 Summer and Fall National Meetings of the NAIC, two conference calls (May 5, 2009 and August 11, 2009) were held to discuss this matter. A draft of the guideline was released for comment after the August 11, 2009 conference call. Notice of the draft release for comment and the conference calls were posted on the NAIC's home page on the Internet and e-mailed to approximately 300 interested parties.

5. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

The only issue was how to select the interest rate for payment streams that run past the point that the accumulation value becomes zero. One comment suggested that if a payment stream ran past that point the entire stream be assigned the interest rate reflecting no withdrawal benefits. The American Academy of Actuaries proposed splitting that type of benefit stream and assigning the interest rate reflecting withdrawal benefits are available prior to the depletion of the accumulation value and the interest rate reflecting no withdrawal benefits after that point. The Task Force agreed with the approach recommended by the American Academy of Actuaries.

6. Any Other Important Information (e.g., amending an accreditation standard).

Historically, actuarial guidelines have not been incorporated into the accreditation standards. This guideline provides guidance on the Standard Valuation Law which is an accreditations standard.

Draft: 9/22/09
Model 641
Adopted by the Health Insurance and Managed Care (B) Committee, 11-9-09

LONG-TERM CARE INSURANCE MODEL REGULATION

Table of Contents

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Section 15. Reporting Requirements

A. Every insurer shall maintain records for each agent of that agent's amount of replacement sales as a percent of the agent's total annual sales and the amount of lapses of long-term care insurance policies sold by the agent as a percent of the agent's total annual sales.

B. Every insurer shall report annually by June 30 the ten percent (10%) of its agents with the greatest percentages of lapses and replacements as measured by Subsection A above. (Appendix G)

C. Reported replacement and lapse rates do not alone constitute a violation of insurance laws or necessarily imply wrongdoing. The reports are for the purpose of reviewing more closely agent activities regarding the sale of long-term care insurance.

D. Every insurer shall report annually by June 30 the number of lapsed policies as a percent of its total annual sales and as a percent of its total number of policies in force as of the end of the preceding calendar year. (Appendix G)

E. Every insurer shall report annually by June 30 the number of replacement policies sold as a percent of its total annual sales and as a percent of its total number of policies in force as of the preceding calendar year. (Appendix G)

F. Every insurer shall report annually by June 30, for qualified long-term care insurance contracts, the number of claims denied for each class of business, expressed as a percentage of claims denied. (Appendix E)

~~Drafting Note: The definition of claim denied used in this reporting form is for HIPAA reporting purposes only, and is not intended to be applied to any other regulatory issues, such as market conduct examinations.~~

G. For purposes of this section:

(1) "Policy" means only long-term care insurance;

(2) Subject to Paragraph (3), "claim" means a request for payment of benefits under an in force policy regardless of whether the benefit claimed is covered under the policy or any terms or conditions of the policy have been met;

(3) "Denied" means the insurer refuses to pay a claim for any reason other than for claims not paid for failure to meet the waiting period or because of an applicable preexisting condition; and

(4) "Report" means on a statewide basis.

H. Reports required under this section shall be filed with the commissioner.

****

APPENDIX E

Claims Denial Reporting Form
Long-Term Care Insurance

For the State of ___________________________
For the Reporting Year of _________________

Company Name:____ Due: June 30 annually
Company Address:____
____
Company NAIC Number:____
Contact Person: _____________________________________Phone Number: ______________________________

Line of Business: Individual Group

Instructions

The purpose of this form is to report all long-term care claim denials under in force long-term care insurance policies. Indicate the manner of reporting by checking one of the boxes below:

☐ Per Claimant – counts each individual who makes one or a series of claim requests.

☐ Per Transaction – counts each claim payment request.

"Denied" means a claim that is not paid for any reason other than for claims not paid for failure to meet the waiting period or because of an applicable preexisting condition. It does not include a request for payment that is in excess of the applicable contractual limits.

Inforce Data

	State Data	Nationwide Data[1]
Total Number of Inforce Policies [Certificates] as of December 31st		

Claims & Denial Data

		State Data	Nationwide Data[1]
1	Total Number of Long-Term Care Claims Reported		
2	Total Number of Long-Term Care Claims Denied/Not Paid		
3	Number of Claims Not Paid due to Preexisting Condition Exclusion		
4	Number of Claims Not Paid due to Waiting (Elimination) Period Not Met		
5	Net Number of Long-Term Care Claims Denied for Reporting Purposes (Line 2 Minus Line 3 Minus Line 4)		
6	Percentage of Long-Term Care Claims Denied of Those Reported (Line 5 Divided By Line 1)		
7	Number of Long-Term Care Claim Denied due to:		
8	• Long-Term Care Services Not Covered under the Policy[2]		
9	• Provider/Facility Not Qualified under the Policy[3]		

10	• Benefit Eligibility Criteria Not Met[4]		
11	• Other		

1. The nationwide data may be viewed as a more representative and credible indicator where the data for claims reported and denied for your state are small in number.
2. Example—home health care claim filed under a nursing home only policy.
3. Example—a facility that does not meet the minimum level of care requirements or the licensing requirements as outlined in the policy.
4. Examples—a benefit trigger not met, certification by a licensed health care practitioner not provided, no plan of care.

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Project History
APPENDIX E CLAIM DENIALS REVISIONS TO THE LONG-TERM CARE INSURANCE MODEL REGULATION

1. Description of the Project, Issues Addressed, etc.

Revisions relating to Appendix E (Claims Denial Reporting Form) of the Long-Term Care Insurance Model Regulation (#641).

2. Name of Group Responsible for Drafting the Model and States Participating

The Appendix E Subgroup of the Senior Issues (B) Task Force drafted the revisions. The participating states were: South Dakota, Florida, Wisconsin, Arkansas, Nebraska, Nevada, Texas, and Pennsylvania. South Dakota was the Chair.

3. Project Authorized by What Charge and Date First Given to the Group

The Health Insurance and Managed Care (B) Committee has the following ongoing charges, which are delegated to the Senior Issues Task Force.

> Develop appropriate regulatory standards and revisions to the NAIC models, consumer guides and training material, as necessary, on long term care insurance. Work with federal agencies as appropriate. Report annually (Delegated to Senior Issues Task Force);
>
> Continue to study and evaluate evolving long-term care insurance product design, rating, suitability and other related factors, and review the existing Long-Term Care Model Act and Regulation to determine their flexibility to remain compatible with the evolving delivery of long-term care services and remain compatible with the evolving long-term care insurance marketplace. Report quarterly (Delegated to Senior Issues Task Force);

The Senior Issues Task Force authorized the formation of a Subgroup to work on revising the model regulation to address Appendix E in the Summer of 2009.

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

The model revisions were drafted by a Subgroup of the Senior Issues Task Force chaired by South Dakota. The following interested parties, organizations, and consumer representatives were on the email list: Amanda Matthiesen (America's Health Insurance Plans), Miriam Krol (American Council of Life Insurers), Genworth Life Insurance, Prudential Life Insurance, Melissa Lawler (American Academy of Actuaries), PriceWaterhouseCoopers, Congressional Research Service, MetLife, Aegon USA, Unum Provident, Bonita Kallestad (Western Minnesota Legal Services), Barbara Cude (University of Georgia), Birny Birnbaum (Center forEconomic Justice), and John Hancock Life Insurance Company.

5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The Senior Issues (B) Task Force appointed a Subgroup at the 2009 Summer National Meeting, to be chaired by South Dakota. The Subgroup held an open conference call on August 6, 2009. Notice for this conference call was emailed to Subgroup regulators and interested parties and posted on the NAIC website.

Prior to the August 6 conference call, Subgroup members and interested parties received and reviewed the current version of Appendix E. Industry representatives proposed draft revisions to Appendix E, which were also distributed to Subgroup members and interested parties. The Subgroup reviewed the industry's proposed revisions on the conference call, and also made additional revisions to Appendix E and to Section 15 of the model regulation. After the conference call, a final draft of the agreed-upon revisions was distributed to Subgroup members and interested parties. The Senior Issues (B) Task Force adopted the revisions at the 2009 Fall National Meeting and they were exposed for a 30 day public comment period prior to consideration by the Health Insurance and Managed Care Committee.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

This project was in response to the discovery made during compilation of the 2008 LTC Data Call Analysis and Report, which was adopted by the Health Insurance and Managed Care Committee and the Market Regulation and Consumer Affairs (D) Committee, that companies were using different methodologies to report claim denial data on Appendix E, and therefore the usefulness of this reporting was limited. The Task Force agreed that *Appendix E* should be revised and created the Subgroup. Regulators, industry and consumer groups were in agreement regarding the need to make revisions to Appendix E.

There are two distinct methods of counting and reporting claim denials that are being used by companies – per claimant and per transaction. Neither method is predominantly used, as industry reported that roughly half the companies count and report by claimant and roughly half count and report by transaction. Therefore, industry suggested that the form be amended so that companies would indicate the manner of reporting. Some states were interested in requiring that companies be required to change their methodology so that all companies were using a uniform method. However, industry stated that this would be cost-prohibitive. The Subgroup agreed to make changes to Appendix E to include the manner of reporting.

Regulators also discussed the overall goal of improving tools for state regulators and others to assess the long-term care insurance marketplace. As such, the Subgroup decided to adopt additional revisions to Appendix E that would add a query regarding in-force policies by state and nationwide. This information is intended to assist in helping regulators better put the rest of the Appendix E data in context.

Additionally, the Subgroup noted that the current drafting note following Section 15F stated that the definition of claim denied in Appendix E was limited to HIPAA reporting purposes only. In accordance with the goal of making Appendix E more broadly useful to state regulators and others in assessing the marketplace, the Subgroup decided to delete this drafting note.

7. Any Other Important Information (e.g., amending an accreditation standard).

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Statement of Statutory Accounting Principles No. 10R

Income Taxes – Revised, A Temporary Replacement of SSAP No. 10

STATUS

Type of Issue:	Common Area
Issued:	Initial Draft; Substantively Revised – November 24, 2009
Effective Date:	January 1, 2001; Substantive revisions to paragraphs 10, 11, 18, 31 and 32 effective for annual periods ending December 31, 2009 and interim and annual periods of 2010. This statement (SSAP No. 10R) shall not be applied or considered effective for interim and annual periods subsequent to 2010. See paragraph 31 of this statement.
~~Affects:~~	~~No other pronouncements~~
Affects:	Temporarily replaces SSAP No. 10
Affected by:	No other pronouncements
Interpreted by:	INT 00-21, INT 00-22, INT 01-18, INT 01-19, INT 01-20, INT 04-17, INT 06-12

Income Taxes

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes.

SUMMARY CONCLUSION

2. For purposes of accounting for federal and foreign income taxes, reporting entities shall adopt *FASB Statement No. 109, Accounting for Income Taxes* (FAS 109) with modifications for state income taxes, the realization criteria for deferred tax assets, and the recording of the impact of changes in its deferred tax balances. For purposes of this statement, only adjusted gross deferred tax assets that are more likely than not (a likelihood of more than 50 percent) to be realized shall be considered in determining admitted adjusted gross deferred tax assets. As a result, financial statements will recognize current and deferred income tax assets and liabilities in accordance with the provisions of this statement.

Current Income Taxes

3. "Income taxes incurred" shall include current income taxes, the amount of federal and foreign income taxes paid (recovered) or payable (recoverable) for the current year. Current income taxes are defined as:

a. Current year estimates of federal and foreign income taxes (including the equity tax of a mutual life insurer and the "true-up" of such tax), based on tax returns for the current year, and tax contingencies for current and all prior years, to the extent not previously provided, computed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5);

b. Amounts incurred or received during the current year relating to prior periods, to the extent not previously provided, as such amounts are deemed to be changes in accounting estimates as defined in *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3).

4. State taxes (including premium, income and franchise taxes) shall be computed in accordance with SSAP No. 5 and shall be limited to (a) taxes due as a result of the current year's taxable basis calculated in accordance with state laws and regulations and (b) amounts incurred or received during the current year relating to prior periods, to the extent not previously provided as such amounts are deemed to be changes in accounting estimates. Property and casualty insurance companies shall report state taxes as other underwriting expenses under the caption "Taxes, licenses, and fees." Life and accident and health insurance companies shall report such amounts as general expenses under the caption "Insurance taxes, licenses, and fees, excluding federal income taxes." Other health entities shall report such amounts as general administration expenses under the caption "Taxes, licenses, and fees." State tax recoverables that are reasonably expected to be recovered in a subsequent accounting period are admitted assets. State taxes are reasonably expected to be recovered if the refund is attributable to overpayment of estimated tax payments, errors, carrybacks, or items for which the reporting entity has authority to recover under a state regulation or statute.

Deferred Income Taxes

5. A reporting entity's balance sheet shall include deferred income tax assets (DTAs) and liabilities (DTLs), the expected future tax consequences of temporary differences generated by statutory accounting, as defined in paragraph 11 of FAS 109.

6. A reporting entity's deferred tax assets and liabilities are computed as follows:

a. Temporary differences are identified and measured using a "balance sheet" approach whereby statutory and tax basis balance sheets are compared;

b. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased;

c. Total DTAs and DTLs are computed using enacted tax rates; and

d. A DTL is not recognized for amounts described in paragraph 31 of FAS 109.

e. Reduce gross DTAs by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment[1], determined in a manner consistent with paragraphs 20 through 25 of FAS 109[2], shall reduce the gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets).

7. Changes in DTAs and DTLs, including changes attributable to changes in tax rates and changes in tax status, if any, shall be recognized as a separate component of gains and losses in unassigned funds (surplus). Admitted adjusted gross DTAs and DTLs shall be offset and presented as a single amount on the statement of financial position.

Admissibility of Income Tax Assets

8. Current income tax recoverables shall include all current income taxes, including interest, reasonably expected to be recovered in a subsequent accounting period, whether or not a return or claim has been filed with the taxing authorities. Current income tax recoverables are reasonably expected to be recovered if the refund is attributable to overpayment of estimated tax payments, errors, carrybacks, as defined in paragraph 289 of FAS 109, or items for which the reporting entity has substantial authority, as that term is defined in Federal Income Tax Regulations.

9. Current income tax recoverables meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

10. ~~Gross~~Adjusted gross DTAs shall be admitted in an amount equal to the sum of paragraphs 10.a., 10.b., and 10.c., or the amount determined in paragraphs 10.d. and 10.e.:

a. Federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; and

b. The lesser of:

i. The amount of adjusted gross DTAs, after the application of paragraph 10-.a., expected to be realized within one year of the balance sheet date; or

[1] The statutory valuation allowance adjustment is utilized strictly to calculate the "adjusted gross DTA". (Admittance criteria in paragraph 10 are applied to the "adjusted gross DTA".) The application of the statutory valuation allowance adjustment in SSAP No. 10R shall not result in a statutory valuation allowance reserve within the statutory financial statements.

[2] For purposes of determining the amount of adjusted gross DTAs and the amount admitted under paragraph 10, the admission calculation shall be made on a separate company, reporting entity basis. A reporting entity that files a consolidated federal income tax return with its parent should look to the amount of taxes it paid (or were allocated to it) as a separate legal entity in determining the admitted DTA under paragraphs 10.a. and 10.e.i. Furthermore, the DTA under these paragraphs may not exceed the amount that the reporting entity could reasonably expect to have refunded by its parent. The taxes paid by the reporting entity represent the maximum DTA that may be admitted under paragraphs 10.a. or 10.e.i., although the amount could be reduced pursuant to the group's tax allocation agreement. The amount of admitted adjusted gross DTAs under paragraphs 10.b.i. and 10.e.ii.(a) is limited to the amount that the reporting entity expects to realize within the applicable realization period, on a separate company basis. The reporting entity must estimate its separate company taxable income and the tax benefit that it expects to receive from reversing deductible temporary differences in the form of lower tax payments to its parent. A reporting entity that projects a tax loss in the applicable realization period cannot admit a DTA related to the loss under paragraph 10.b. and 10.e.i., even if the loss could offset taxable income of other members in the consolidated group and the reporting entity could expect to be paid for the tax benefit pursuant to its tax allocation agreement.

ii. Ten percent of statutory capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net DTAs, EDP equipment and operating system software and any net positive goodwill; and

c. The amount of adjusted gross DTAs, after application of paragraphs 10-.a. and 10-.b., that can be offset against existing gross DTLs. An entity must consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations.

d. If the reporting entity is subject to risk-based capital requirements or is required to file a Risk-Based Capital Report with the domiciliary state, and the reporting entity's financial statements, after reflecting admitted adjusted gross DTAs calculated from the sum of paragraphs 10.a., 10.b., and 10.c. results in the company's risk-based capital level being above the following thresholds:

i. The risk-based capital trend test for those entities that are subject to a risk-based capital trend-test; or

ii. For those entities not subject to a risk-based capital trend test, a risk-based capital above the maximum risk-based capital level where an action level could occur as a result of a trend test (i.e. 250% for life and fraternal entities; 300% for property/casualty entities and health entities;

then the reporting entity may elect to admit a higher amount of adjusted gross DTAs as calculated in paragraph 10.e.

If the reporting entity is not subject to risk-based capital requirements and is not required to file a Risk-Based Capital Report with the domiciliary state, then the reporting entity shall not admit a higher amount of adjusted gross DTAs as calculated in paragraph 10.e. and shall calculate admitted adjusted gross DTAs equal to the sum of paragraphs 10.a., 10.b., and 10.c.

e. If the thresholds in paragraph 10.d. are exceeded, then adjusted gross DTAs, if elected by the reporting entity, shall be admitted in an amount equal to the sum of:

i. Federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years; and

ii. the lesser of:

(a) The amount of adjusted gross DTAs, after the application of paragraph 10.e.i., expected to be realized within three years of the balance sheet date; or

(b) Fifteen percent of statutory capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any net DTAs, EDP equipment and operating system software and any net positive goodwill; and

iii. The amount of adjusted gross DTAs, after application of paragraphs 10.e.i. and 10.e.ii., that can be offset against existing gross DTLs. An entity must consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations.

f. The increased amount (admitted adjusted gross DTA calculated from 10.e. less the sum of admitted adjusted gross DTA calculated from 10.a., 10.b., and 10.c.) of admitted assets and statutory surplus resulting from the use, if applicable, of paragraph 10.e. to calculate admitted adjusted gross DTAs:

i. Shall be separately reported in the *Aggregate write-ins for gains and losses in surplus* line of the Summary of Operations, Statement of Income or Statement of Revenue, as applicable.

ii. Shall be separately reported in the *Aggregate write-in for special surplus funds* line of Liabilities, Surplus and Other Funds; Liabilities, Capital and Surplus or Liabilities and Surplus, as applicable.

11. In computing a reporting entity's admitted adjusted gross DTA pursuant to paragraph 10;

a. Existing temporary differences that reverse by the end of the subsequent calendar year, within three years or during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years, shall be determined in accordance with paragraphs 228 and 229 of FAS 109;

b. In determining the amount of federal income taxes that can be recovered through loss carrybacks, the amount and character (i.e., ordinary versus capital) of the loss carrybacks and the impact, if any, of the Alternative Minimum Tax shall be determined in accordance with the provisions of the Internal Revenue Code, and regulations thereunder;

c. The amount of carryback potential that may be considered in calculating the admitted adjusted gross DTAs of a reporting entity in subparagraph 10~~-~~.a. or 10.e.i. above, that files a consolidated income tax return with one or more affiliates, may not exceed the amount that the reporting entity could reasonably expect to have refunded by its parent; and

d. The phrases “reverse by the end of the subsequent calendar year~~” and~~,” “reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years,” “realized within one year of the balance sheet date” and “realized within three years of the balance sheet date” are intended to accommodate interim reporting dates and reporting entities that file on an other than calendar year basis for federal income tax purposes.

Intercompany Income Tax Transactions

12. In the case of a reporting entity that files a consolidated income tax return with one or more affiliates, income tax transactions (including payment of tax contingencies to its parent) between the affiliated parties shall be recognized if:

a. Such transactions are economic transactions as defined in *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25);

b. Are pursuant to a written income tax allocation agreement; and

c. Income taxes incurred are accounted for in a manner consistent with the principles of FAS 109, as modified by this statement.

13. Amounts owed to a reporting entity pursuant to a recognized transaction shall be treated as a loan or advance, and nonadmitted, pursuant to SSAP No. 25, to the extent that the recoverable is not settled within 90 days of the filing of a consolidated income tax return, or where a refund is due the reporting entity's parent, within 90 days of the receipt of such refund.

Intraperiod Tax Allocation

14. In accordance with paragraph 35 of FAS 109, a reporting entity's unrealized gains and losses shall be recorded net of any allocated DTA or DTL. The amount allocated shall be computed in a manner consistent with paragraph 38 of FAS 109.

15. Income taxes incurred shall be allocated to net income and realized capital gains or losses in a manner consistent with paragraph 38 of FAS 109. Furthermore, income taxes incurred or received during the current year attributable to prior years shall be allocated, to the extent not previously provided, to net income in accordance with SSAP No. 3 unless attributable, in whole or in part, to realized capital gains or losses, in which case, such amounts shall be apportioned between net income and realized capital gains and losses, as appropriate.

Interim Periods

16. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described in paragraphs 19 and 20 of *Accounting Principles Board Opinion No. 28, Interim Financial Reporting*. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

Disclosures

17. Statutory financial statement disclosure shall be made in a manner consistent with the provisions of paragraphs 43—45 and 48 of FAS 109. However, required disclosures with regard to a reporting entity's GAAP valuation allowance shall be replaced with disclosures relating to the statutory valuation allowance adjustment and the nonadmittance of some portion or all of a reporting entity's DTAs. The financial statements shall include the disclosures required by paragraph 47 of FAS 109 for non-public companies. Paragraphs 18 to 23 describe the disclosure requirements as modified for the difference between the requirements of FAS 109 and those prescribed by this statement.

18. The components of the net DTA or DTL recognized in a reporting entity's ~~balance sheet~~financial statements shall be disclosed as follows:

a. The total of all DTAs (gross, adjusted gross, admitted and nonadmitted~~)~~) by tax character;

b. The total of all DTLs by tax character;

c. Whether the reporting entity has elected to admit DTAs pursuant to paragraph 10.e. and whether the current-period election differs from the prior reporting period;

d. The total DTAs nonadmitted as the result of the application of paragraph 10;~~ and~~

e. The net change during the year in the total DTAs nonadmitted~~.~~;

f. The increased amount by tax character, and the change in such, of admitted adjusted gross DTAs resulting from the use of paragraph 10.e., if applicable;

g. The amount of each result or component of the calculation, by tax character of paragraphs 10.a., 10.b.i., 10.b.ii., 10.c., 10.e.i., 10.e.ii.a., 10.e.ii.b., and 10.e.iii, and the risk-based capital level (total adjusted capital and authorized control level) used in paragraph 10.d.; and

h. The amount of admitted DTAs, admitted assets, statutory surplus and total adjusted capital in the risk-based capital calculation resulting from the calculation in paragraph 10.a., 10.b., and 10.c., and the increased amount of DTAs, admitted assets and surplus resulting from the use of paragraph 10.e., if applicable.

19. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

b. The cumulative amount of each type of temporary difference;

c. The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable; and

d. The amount of the DTL for temporary differences other than those in item c. above that is not recognized in accordance with the provisions of paragraphs 31 of FAS 109.

20. The significant components of income taxes incurred (i.e., current income tax expense) and the changes in DTAs and DTLs shall be disclosed. Those components would include, for example:

a. Current tax expense or benefit;

b. The change in DTAs and DTLs (exclusive of the effects of other components listed below);

c. Investment tax credits;

d. The benefits of operating loss carryforwards;~~ and~~

e. Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity~~.~~; and

f. Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.

21. Additionally, to the extent that the sum of a reporting entity's income taxes incurred and the change in its DTAs and DTLs is different from the result obtained by applying the federal statutory rate to its pretax net income, a reporting entity shall disclose the nature of the significant reconciling items.

22. A reporting entity shall also disclose the following:

a. The amounts, origination dates and expiration dates of operating loss and tax credit carryforwards available for tax purposes; ~~and~~

b. The amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future net losses~~.~~; and

c. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.

23. If a reporting entity's federal income tax return is consolidated with those of any other entity or entities, the following shall be disclosed:

a. A list of names of the entities with whom the reporting entity's federal income tax return is consolidated for the current year; and

b. The substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in which the total combined federal income tax for all entities is allocated to each entity which is a party to the consolidation. (If no written agreement has been executed, give an explanation of why such an agreement has not been executed.) Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

24. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

25. This statement adopts the provisions of FAS 109 except as modified in paragraph 2 of this statement which results in paragraphs 29—30, 36—37, 39, 41—42, 46, and 49—59 of FAS 109 being rejected, inasmuch as they are not applicable to reporting entities subject to this statement or are inconsistent with other statutory accounting principles. Paragraph 47 of FAS 109 is adopted with modification to provide for the disclosures required for non public reporting entities.

26. This statement rejects *FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods…an interpretation of APB Opinion No. 28.*

27. The following lists Accounting Principles Board Opinions that are adopted or rejected by this statement:

a. *Accounting Principles Board Opinion No. 2, Accounting for the "Investment Credit,"* paragraphs 9—15 are adopted with modification to utilize the cost reduction method only and rejects all other paragraphs;

b. *Accounting Principles Board Opinion No. 4 (Amending No. 2), Accounting for the "Investment Credit,"* is rejected in its entirety;

c. *Accounting Principles Board Opinion No. 10, Omnibus Opinion—1966,* paragraph 6 is adopted;

d. *Accounting Principles Board Opinion No. 23, Accounting for Income Taxes—Special Areas,* paragraphs 1—3, 5—9, 12—13, and 15—18 are adopted, and paragraphs 19—25, and 31—33 are rejected;

e. *Accounting Principles Board Opinion No. 28, Interim Financial Reporting,* paragraphs 19 and 20 are adopted and all other paragraphs rejected.

28. The following lists FASB Technical Bulletins that are adopted or rejected by this statement:

a. *FASB Technical Bulletin No. 79-9, Accounting in Interim Periods for Changes in Income Tax Rates* is rejected in its entirety;

b. *FASB Technical Bulletin No. 82-1, Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases* is adopted in its entirety.

29. The following lists FASB Emerging Issues Task Force Issues that are adopted or rejected by this statement:

a. *FASB Emerging Issues Task Force No. 91-8, Application of FASB Statement No. 96 to a State Tax Based on the Greater of a Franchise Tax or an Income Tax,* is rejected in its entirety;

b. *FASB Emerging Issues Task Force No. 92-8, Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary*, is adopted in its entirety;

c. *FASB Emerging Issues Task Force No. 93-13, Effect of a Retroactive Change in Enacted Tax Rates That Is Included in Income from Continuing Operations*, is rejected in its entirety;

d. *FASB Emerging Issues Task Force No. 93-16, Application of FASB Statement No. 109 to Basis Differences within Foreign Subsidiaries That Meet the Indefinite Reversal Criterion of APB Opinion No. 23*, is rejected in its entirety;

e. *FASB Emerging Issues Task Force No. 93-17, Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary That Is Accounted for as a Discontinued Operation*, is adopted in its entirety;

f. *FASB Emerging Issues Task Force No. 94-10, Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109*, is rejected in its entirety;

g. *FASB Emerging Issues Task Force No. 95-9, Accounting for Tax Effects of Dividends in France in Accordance with FASB Statement No. 109*, is rejected in its entirety;

h. *FASB Emerging Issues Task Force No. 95-10, Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109*, is rejected in its entirety;

i. *FASB Emerging Issues Task Force No. 95-20, Measurement in the Consolidated Financial Statements of a Parent of the Tax Effects Related to the Operations of a Foreign Subsidiary That Receives Tax Credits Related to Dividend Payments*, is rejected in its entirety.

30. This statement rejects *AICPA Accounting Interpretations, Accounting for the Investment Credit: Accounting Interpretations of APB Opinion No. 4* in its entirety.

Effective Date and Transition

31. This statement is effective for ~~years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3~~2009 annual financial statements, and 2010 interim and annual financial statements only[3]. In the event subsequent deferred tax asset admission guidance is not adopted by the end of this statement's effective period, SSAP No. 10 is reinstated as authoritative guidance for accounting and reporting of income taxes for statutory financial statements.

32. Revisions to paragraphs 10 and 11 that result in a change in admitted deferred tax assets are considered a change in accounting principle, effective December 31, 2009.

33. The SSAP No. 10 Q&A is not included in this revised statement**.** *SSAP No. 10—Income Taxes* continues to provide this Q&A, however, that guidance does not incorporate the substantive revisions included in this statement (SSAP No. 10R).

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- FASB Statement No. 109, Accounting for Income Taxes
- Accounting Principles Board Opinion No. 2, Accounting for the "Investment Credit"
- Accounting Principles Board Opinion No. 10, Omnibus Opinion—1966, paragraph 6
- Accounting Principles Board Opinion No. 23, Accounting for Income Taxes—Special Areas, paragraphs 1—3, 5—9, 12—13, and 15—18
- Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraphs 19 and 20
- FASB Technical Bulletin No. 82-1, Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases
- FASB Emerging Issues Task Force No. 92-8, Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary
- FASB Emerging Issues Task Force No. 93-17, Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary That Is Accounted for as a Discontinued Operation

[3] A Subgroup of the Statutory Accounting Principles Working Group has been formed to provide a recommendation on the appropriate determination for admitting deferred tax assets for reporting periods after December 31, 2010.

RELEVANT ISSUE PAPERS

- Issue Paper No. 83—Accounting for Income Taxes

NAIC National Association *of* Insurance Commissioners & The Center for Insurance Policy and Research

To: Commissioner Gross (VA), Chair, Financial Condition (E) Committee

From: Joseph Fritsch (NY), Chair, Statutory Accounting Principles (E) Working Group

Date: December 1, 2009

RE: Statement Regarding Admission of Deferred Tax Assets under Statutory Accounting Principles

Background:
The ACLI requested relief from certain capital and surplus requirements in a November 11, 2008 memo. At that time, the ACLI requested that statutory accounting principles "follow GAAP rules for deferred tax assets," but understood that such a significant change to statutory accounting requirements could not be accomplished for year-end reporting. Therefore, the ACLI requested a change to a component of the deferred tax asset (DTA) admission calculation in paragraph 10 of *SSAP No. 10—Income Taxes* (SSAP No. 10) for 2008 year-end reporting that would increase the period over which the deferred tax benefits are projected to be realized to five years and increase the limit as a percent of statutory capital and surplus to 25%. The Statutory Accounting Principles (E) Working Group responded that increasing the admission of deferred tax assets would compromise regulatory objectives. However, if it was subsequently determined that action should be taken regarding the admission of deferred tax assets, the Statutory Accounting Principles (E) Working Group suggested an alternative that was more consistent with regulatory objectives. The alternative increased the realization period from one to three years and increased the percentage limitation from 10% of statutory capital and surplus to 15%. The Capital and Surplus Relief (EX) Working Group understood the concerns of the Statutory Accounting Principles (E) Working Group and incorporated this alternative, as well as other constraints into a modified proposal. The constraints added allowed additional DTA admission for insurers that are less at risk of operating losses, as realization of admitted DTAs is predicated upon future income of the insurer. While the modified proposal of the Capital and Surplus Relief (EX) Working Group reduced the level of conservatism included in the current admission calculation, the constraints added provided an alternative level of conservatism that was not previously included. This final recommendation was added to the Substantive Active List of the Maintenance Agenda and the Statutory Accounting Principles (E) Working Group conducted numerous regulator-to-regulator educational discussion sessions and an open interim conference call providing the ACLI the opportunity to comment on the merits of their request.

Recent Activity:
During the 2009 Fall National Meeting, the Statutory Accounting Principles (E) Working Group adopted certain conceptual changes to the admission criteria for DTAs outlined in SSAP No. 10. Subsequent to that meeting, the Working Group became concerned that the "guardrails" concepts regarding regulatory triggers on admitted assets, surplus and dividends could not be consistently implemented for year-end 2009. Therefore, the Working Group developed an alternative proposal that modifies the proposal adopted at the Fall National Meeting, yet still retains the risk-based capital (RBC) level constraint that only allows those insurers that exceed a certain RBC threshold to admit additional DTAs. The modifications are described below:

- Explicitly requires a statutory valuation allowance adjustment to gross DTAs based on a more-likely-than-not threshold for realization.
- Only insurers that are subject to RBC requirements or are required to file a RBC Report with their domiciliary state are provided the option to admit additional DTAs.
- Insurers that are not subject to RBC requirements are not allowed additional admission of DTAs.

The Working Group has formally referred the issue to the Capital Adequacy (E) Task Force requesting expedited review and a determination of an appropriate RBC charge for the 2009 year-end reporting period. The Working Group has also requested that the Capital Adequacy (E) Task Force refer the issue to the American Academy of Actuaries for a more thorough study for the 2010 interim and annual reporting periods. The proposal contains a sunset provision and is only effective through 2010. The Statutory Accounting Principles (E) Working Group anticipates that it will be able to complete an evaluation of the

DTA admission calculation changes by the end of the sunset period to determine if the changes contained in the proposal should be continued.

Conclusion:
The Statutory Accounting Principles (E) Working Group believes that concerns related to deeming additional DTAs as admitted assets would be addressed with an appropriate RBC adjustment or charge. With an appropriate RBC adjustment or charge established to address the risks of realization, liquidity and contingency, the Working Group believes that regulatory objectives would no longer be compromised by increasing the amount of DTAs deemed to be admitted assets. In addition, the Working Group provides the following comments:

- Surplus must be conservatively measured to ensure that policyholder, contract holder and other legal obligations are met when they come due and that insurers maintain capital and surplus at all times, and in such forms, to provide an adequate margin of safety. The Working Group believes that an appropriate RBC adjustment or charge related to DTAs that addresses the risks of realization, liquidity and contingency, would provide a margin of safety for policyholders while presenting an economic value on the statutory financial statements.

- The Working Group believes the extension of the realization period and the associated examination risk related to the increased utilization of projections and management judgment is addressed by additional disclosures related to tax character and the component of the admission calculation by tax character.

- The Working Group had concerns that, under current statutory accounting principles, it was unclear whether a valuation allowance adjustment to gross DTAs was applied on a uniform basis. Therefore, the Working Group has added explicit guidance related to the statutory valuation allowance adjustment. This addition alleviates the Working Group's concerns by adding consistency to the realization methodology utilized among insurance reporting entities.

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