National Association of Insurance Commissioners

2012 ANNUAL REPORT

Six Degrees *of* NAIC

Reflecting. Protecting. Connecting.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Operations & Services

Association Profile

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

The NAIC provides its members with a national forum for discussing common issues and interests, as well as for
working cooperatively on regulatory matters that transcend the boundaries of their own jurisdictions. Collectively, commissioners work to develop model legislation, rules, regulations and white papers to coordinate regulatory policy. The overriding objective is to protect consumers and help maintain the financial stability of the insurance marketplace.

With its wide range of services, the NAIC supports the work of its committees, the state insurance departments, state and federal officials, and the public. The association maintains three offices: the Executive Office, located in Washington, D.C.; the Central Office, in Kansas City, Mo.; and the Capital Markets & Investment Analysis Office in New York, N.Y.

The NAIC maintains extensive systems linking all state insurance departments and provides financial, actuarial, legal, research, technology, market conduct and economic expertise. Staff members research standard and custom reports, develop uniform statutory financial statements, monitor federal activity, submit legal briefs, conduct educational training programs and much more.

The NAIC Central Office moved to Town Pavilion in downtown Kansas City, Missouri after finalizing a high-profile relocation to accommodate the growing needs of the organization. The review process for a new office location, which began in late 2008, included an architectural survey to examine current and future space needs, employee feedback and a variety of incentives offered by Kansas and Missouri, as well as by the city of Kansas City, Missouri. The downtown location, amenities and financial terms made Town Pavilion an ideal choice for NAIC employees and its affiliates.

2012 NAIC Organizational Chart

Therese M. (Terri) Vaughan, Ph.D., Chief Executive Officer

Andrew J. Beal, Chief Operating Officer & Chief Legal Officer

Kay Noonan
General Counsel

Trish Schoettger
Director, Member Services

Jim Woody
Chief Financial Officer

Julie Fritz
Chief Business Strategy & Development Officer

Jeff Johnston
Senior Director, Financial Regulatory Affairs, Domestic Policy & Implementation

Ethan Sonnichsen
Director, Government Relations

Eric Nordman
Director, Regulatory Services and Center for Insurance Policy & Research

Elise Liebers
Special Advisor, Financial Regulatory Affairs, International Policy & Market Surveillance

Scott Holeman
Director, Communications

Todd Sells
Director, Financial Regulatory Services

Ramon Calderon
Director, International Policy

Tim Mullen
Director, Market Regulation

Denise Matthews
Director, Information Systems

Kris DeFrain
Director, Research & Actuarial Services

Frosty Mohn
Director, Technical Services

Brent Roper
Director, Human Resources

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Statistics & Highlights

Association Update

The NAIC prides itself on its diversity, innovative employment practices and exceptional benefits. The association successfully sustained operations without major cuts in staffing or benefits in 2012. Employee turnover, excluding unavoidable separations such as retirements, was 10.2%.

One of the hallmarks of the NAIC's unique employee benefits, the Infants in the Workplace program, celebrated its 13th year and welcomed nine new babies to the NAIC offices. Since the program's inception, 123 babies have accompanied their parents to work.

The NAIC continued its tradition of charitable giving and community service in 2012. Through numerous fundraising efforts, employees raised more than $13,500. These funds were donated to 31 local, national and international charities, including the American Cancer Society, Kansas City Rescue Mission, Toys for Tots, Operation Breakthrough, and many others.

Among the many NAIC volunteer initiatives in 2012 were: planting vegetable gardens for a local women's shelter; raising money for the American Red Cross to assist those impacted by Superstorm Sandy; organizing blood drives, and collecting donated children's books.

The NAIC's new downtown location both inspired and informed its decision to partner with the nearby Paseo Academy of Fine and Performing Arts. The decision to select the Paseo Academy took on greater significance when the NAIC learned that the school's limited budget only allotted $3 per student per year for fine arts supplies. The NAIC donated $1,700 to the Paseo Academy, which was raised from the sale of prints of employee photos chosen to be displayed in the new office space. In addition, the committee extended its commitment to the school by attending its annual art sale benefitting student artists. The committee purchased several pieces from the sale to support the students and add to the office's new art collection.

Robert Dineen Award

The NAIC Robert Dineen Award is given each year to a state insurance department staff member who has made an outstanding contribution to insurance regulation. Joseph Fritsch of the New York State Department of Financial Services was recognized for his work in statutory accounting and solvency issues.

Fritsch serves as Chair of the NAIC Statutory Accounting Principles Working Group and Vice Chair of the Emerging Accounting Issues Working Group. He worked closely with regulators and NAIC staff regarding AIG and securities lending programs at the height of the financial crisis, and played a key role in the NAIC's reinsurance modernization proposal.

2012 Statistics
3 National Meetings with approximately 5,726 Attendees
58 NAIC Interim Meetings
18 Funded Consumer Reps
423 Million+ Total Media Impressions (TV, Radio, PSAs, Consumer Alerts)
750+ Fulfilled Media Requests
6.8 Million Visits to NAIC Website
472,140 Visits to Insure U Website
3.4 Million Visits to Consumer Information Source
12.4 Million Visits to NAIC's Regulator-Only I-SITE Website
544,884 Insurance Product Submissions to the System for Electronic Rate and Form Filing (SERFF)
183 NAIC Publications and Data Products
103 Classroom or Online Education Courses
12 Full Accreditation Reviews
14 Pre-Accreditation Reviews
40 Interim Accreditation Reviews

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Government Relations

The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in 2010 led to increased federal involvement in the insurance sector. The NAIC's Government Relations Leadership Council (GRLC) is responsible for coordinating with financial regulators and policymakers in Washington, D.C. Through GRLC, NAIC members weighed in frequently on the federal agency actions in the form of regulator meetings, Congressional hearings and comment letters to various agencies promulgating new rules.

In order to keep members of Congress abreast of the NAIC's regulatory advances in the U.S. and abroad, NAIC President and Florida Insurance Commissioner Kevin M. McCarty testified at two Congressional hearings held by the House Financial Services Committee. The first hearing in May focused on international competitiveness of the U.S. insurance sector and its impact on jobs. The second hearing was an opportunity to address concerns with federal regulator proposals to implement new capital standards on federally regulated holding companies that are affiliated with companies engaged in insurance activities. At both hearings, President McCarty expressed a willingness of state insurance commissioners to coordinate with other financial regulators and Congress to implement reforms that make sense.

Federal programs such as the National Flood Insurance Program (NFIP), which are authorized by Congress, require coordination with state regulators. The NFIP is important for both consumers and the industry, and is an essential component in the nation's response to natural disasters. In June, state regulators sent a letter to Senate leaders urging them to reauthorize the program, which was set to expire in July 2012. On July 2, both the House and Senate passed a five-year reauthorization of the program.

Insurance is also an important component in financial planning. In August, Julie Mix McPeak, Commissioner for the Tennessee Department of Commerce and Insurance, testified before the U.S. Department of Labor's Advisory Council on Employee Welfare and Pension Benefit Plans. Her testimony highlighted the significance of income replacement during retirement, and oversight of the life insurance and annuities industry.

NAIC coordination with federal financial regulators happens both informally and through participation in more structured settings. In September, Missouri Insurance Director John M. Huff was appointed to a second two-year term as the state regulator representative on the Financial Stability Oversight Council (FSOC). FSOC was created to monitor the safety and stability of the nation's financial system, identify risks to the system, and coordinate response to any threats.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Health Insurance Policy

The NAIC continues to support state insurance departments as they face the myriad changes brought on by the passage of the Affordable Care Act (ACA). Passed in 2010, the ACA relies heavily on the credibility and technical expertise of the NAIC. Congress assigned the NAIC a number of critical responsibilities, which have been delegated to 15 different committees, working groups and subgroups. While early reforms have already taken effect, the law is to be phased in over four years, with the most substantial of the reforms happening in 2014. Although the ACA greatly expands the involvement of the federal government in health insurance standards and oversight, regulatory authority remains with the states.

In preparation for the most wide-sweeping reforms, the states — working through the NAIC — have been coordinating with the federal government and providing tools, information and resources that best protect insurance consumers while meeting the outlined statutory obligations. The NAIC supports the states, regardless of the exchange model that the state chose to implement –a state-based exchange, federal exchange or a hybrid partnership between the state and federal government. The NAIC continues to play a key part in the implementation of the ACA, as required by the law. The NAIC also provides important information and assistance to those states that are pursuing exchange options outside of the ACA. In support of the latter, the NAIC created the Health Care Reform Regulatory Alternatives Working Group.

The Health Insurance and Managed Care Committee adopted five white papers to assist states as they implement the ACA. The papers included rate filing, form filing, network adequacy, accreditation and quality, and marketing and consumer assistance. The committee also developed and adopted two model acts to implement the 2014 reforms; adoption by the full membership is anticipated in early 2013.

In an effort to better inform consumers on what their insurance actually covers, the NAIC submitted recommendations to the U.S. Department of Health and Human Services (HHS) on the uniform enrollment form and reviewed the final Summary of Benefits and Coverages (SBC). This form was designed after the nutrition labels found on packaged foods and will help consumers make informed decisions and “apples to apples” comparisons among various insurance options. In 2012 the NAIC worked with the Department of Health and Human Services as they finalized the rule.

The NAIC provided materials and regular updates to state and federal regulators and legislators and continued to work with the U.S. Center for Consumer Information and Insurance Oversight (CCIIO) on a variety of implementation issues, including, but not limited to: complaints, producer lists, network adequacy, market oversight and enforcement.

Additionally, the NAIC membership commented on the proposed regulations published during the year by HHS and the U.S. Office of Personnel Management (OPM), including the 2014 market regulations, the essential health benefits/actuarial value regulations, the rate filing template, the multi-state plan regulations and the notice of payment and benefit parameters.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: International Insurance Supervision

While working to enhance understanding and cooperation among the various jurisdictions around the world, U.S. insurance regulators recognize not only the need, but also the benefits of respecting different cultures, legal systems, operational structures and regulatory approaches. The NAIC and its members have long been committed to providing leadership on a wide range of global insurance issues and activities, with a focus on ensuring policyholder protections and maintaining stable insurance markets.

An increasingly global business, U.S. state insurance regulators are heavily engaged with their international counterparts in developing the elements of a stronger international insurance regulatory framework. Each state, the District of Columbia, and five U.S. territories are members of the International Association of Insurance Supervisors (IAIS).

A highlight of the year was the IAIS 19th Annual Conference and Committee Meeting hosted by the NAIC and held in Washington, D.C. in October. The conference, titled "Insurance Supervision: Foundations for Global Financial Strength," drew a record attendance of 700 individuals, including insurance regulators, federal government officials, insurance industry leaders, consumer advocates and academics, as well as other guests from around the world. The annual conference provided participants with an excellent opportunity for big-picture discussion on international regulatory issues and learning about major trends and developments in insurance and financial markets.

In addition to hosting the IAIS annual conference, the NAIC participated in a number of activities and work streams at the international level, including at the Financial Stability Board (FSB), the Organization for Economic Cooperation and Development (OECD), and the Joint Forum (which brings together insurance, banking and securities regulators to discuss cross-sectoral issues).

As a founding member of the IAIS, the NAIC continues to play a significant role in a number of key areas, including the IAIS project to develop global standards for determining and addressing potential risks to the global financial system posed by large insurance or reinsurance companies, in concert with similar work underway by the other major standard-setting organizations in the banking and securities sectors.

The NAIC and state regulators are also fully engaged in the important IAIS process that promotes the implementation of new standards, the revised Insurance Core Principles (ICPs) along with corresponding standards and guidance material, and the long-term IAIS project to develop a Common Framework for the Supervision of Internationally Active Insurance Groups, commonly referred to as ComFrame.

Global diplomacy is a critical component of the international relations team at the NAIC. In 2012, state insurance regulators and NAIC staff participated in a number of technical training and dialogue sessions with foreign regulators such as Association of Latin American Insurance Supervisors (ASSAL), China and Thailand. The NAIC also engaged in ongoing regulator-to-regulator dialogues with the EU, Bermuda, Canada, China, Japan, Switzerland and other regulators around the world to facilitate information-sharing, coordinate standard setting activities, and address current regulatory issues.

In January 2012, building on more than a decade of dialogue on a regular basis with its European counterparts on a wide range of regulatory matters, the NAIC and state regulators engaged in a series of deeper discussions with the objective of even further enhancing the understanding and cooperation between the U.S. and Europe on insurance issues. In addition to the NAIC and the new Federal Insurance Office (FIO), which played a constructive role in the process, the U.S./EU Mutual Regulatory Understanding Project also included the European Commission and the European Insurance and Occupational Pension Authority (EIOPA), as well as many individual regulators and experts from both U.S. and European jurisdictions. The project has produced a joint report on the commonalities and differences between the jurisdictions in key areas of supervision, with input provided by interested parties on the report at two public hearings and through written submissions, as well as an outline of common objectives and initiatives to pursue over the next five years.

The NAIC International Fellows Program continued with spring and fall sessions, bringing the association's strong track record of participation up to a total of 189 fellows from 28 countries, with 36 U.S. jurisdictions serving as hosts since the program was developed in 2004. This highly successful and rewarding program seeks to advance relationships with foreign regulators, emphasizing the exchange of regulatory techniques and technology.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Solvency Modernization

The lessons learned from the 2007-08 financial crisis set the stage for regulators to make major changes to group supervision. With the adoption of state law changes, regulators expanded upon the current group supervisory method. Regulators gained access to additional information and plans to require holding companies to report on their enterprise risk using a “Form F” reporting form. Large insurers or insurance groups will explain their risk management and evaluate business in normal and stressed times using an Own Risk and Solvency Assessment (ORSA) process. In 2012, the NAIC adopted the new Risk Management and Own Risk and Solvency Assessment Model Act and conducted an ORSA pilot project to provide additional guidance to companies working to implement their ORSA process.

Marking a major milestone in the move from formulaic rules to principle-based reserving (PBR), the NAIC adopted the Valuation Manual referenced in the 2009 version of the Standard Valuation Law (SVL). The Valuation Manual begins the process of revising reserving requirements to be more dynamic to meet the needs for today’s variety of products and helps to mitigate the need for insurers to modify products in ways that avoid the formulaic regulatory requirements.

The NAIC continues on the path of implementation of major changes to the reinsurance regulatory requirements. Beginning with changes to model laws adopted in 2010, the NAIC is working on accreditation standards, the review and approval of qualified jurisdictions needed to qualify for collateral reduction, and the creation of an NAIC group to provide advisory support and assistance to states to review reinsurance collateral reduction applications.

The Solvency Modernization Initiative (SMI) aims to improve an already strong system of solvency regulation, taking a critical eye to the U.S. system in light of international developments and lessons learned from the financial crisis. Since 2008, regulators have focused their SMI efforts on five key solvency areas: capital requirements, accounting and financial reporting, governance and risk management, reinsurance, and group supervision. Highlighting the strengths of the national system of solvency regulation and identifying improvements that might be made, SMI demonstrates the process of continuous evolution that characterizes the U.S. system.

Internationally, the NAIC has supported increased coordination with colleagues in other jurisdictions, particularly efforts aimed at more effective and efficient supervision of internationally active insurance groups, while always recognizing that the first priority is to U.S. insurance consumers. This priority makes the NAIC’s perspective unique and engagement essential, particularly as international standards increase in relevance for U.S. markets.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Financial Regulation

As the NAIC continues its work toward modernizing the state-based system of financial regulation, notable progress was made in several areas:

• **Reserving for Universal Life Insurance Policies (Actuarial Guideline XXXVIII)** — The NAIC successfully resolved disagreements regarding the proper valuation methodology for universal life policies with secondary guarantees and is now implementing the oversight mechanism to help ensure consistent application of AG XXXVIII by insurers and insurance regulators.
• **Use of Captives** — An NAIC group charged with evaluating the use of insurer-owned captives released study results and recommendations for public comment. Preliminarily, the group is recommending a series of actions that may entail revising statutory accounting guidance, updating the relevant NAIC models, enhancing financial reporting and improving analysis and examination procedures.
• **Separate Account Business** — The use of "separate accounts" by insurers has evolved rapidly over the past 20 years. Following several years of study by NAIC staff and regulators, recommendations were brought forward in 2012 that are intended to clarify financial reporting of insulated and non-insulated insurance contracts.

Financial Regulation Standards and Accreditation Program
The NAIC Financial Regulation Standards and Accreditation Program maintains standards to promote effective financial solvency regulation. NAIC accreditation allows non-domestic states to rely on the accredited domestic regulator to fulfill a baseline level of effective financial regulatory oversight. This creates substantial efficiencies for insurance regulators, who are then able to coordinate and rely on each other's work. It also creates far greater efficiencies for insurance companies licensed in accredited states, which are then not subject to financial examinations or other financial oversight by multiple jurisdictions. In 2012, there were 12 full accreditation reviews, two accreditation re-reviews, 40 interim annual reviews and 14 pre-reviews.

Financial Examination File Review
The NAIC supports two Financial Examination File Review Projects to assist states in implementing the risk-focused approach to financial examinations. The states can participate in the Staff File Review Project by submitting completed risk-focused exam files to NAIC staff for review. Based on the results of the review, a feedback letter regarding the effectiveness of implementation and improvement suggestions is provided to the states, along with follow-up training if warranted/requested. At the end of 2011, the NAIC instituted a new Exam Supervisor Peer Review Project for NAIC staff and the states to work together in reviewing and discussing completed exam files. This project provides the opportunity for a volunteer group of regulators to develop best practices for conducting risk-focused exams, provide and receive feedback for consideration on future exams, and provide input on how enhancements can be made to the guidance and training provided by the NAIC to improve the implementation of risk-focused

examinations. Four sessions of the project were completed in 2012, with 36 exam files being reviewed from 33 different jurisdictions. This new project has largely reduced the demand for the Staff File Review Project, which is why only two files were reviewed solely by NAIC staff in 2012.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Market Regulation

Consumer protection in the insurance marketplace is a network of strong, state-based monitoring and consumer protection laws, such as the Unfair Trade Practices Act and Unfair Claims Settlement Practices Act. Through analysis, regulatory interventions with companies and multi-jurisdictional collaboration, state insurance regulators ensure the products and promises companies provide consumers stand the test of time.

At the NAIC, the Market Regulation and Consumer Affairs Committee monitors all aspects of the market regulatory process for continuous improvement. In 2012, the Committee and its subgroups focused on issues that could directly affect the availability, affordability and apprehension of insurance for consumers in their states.

The Limited Benefits Working Group issued a consumer alert for states to weigh the appropriateness of a pared-down health plan. The Auto Insurance Study Group, a joint effort of the Market Regulation and Consumer Affairs Committee and the Property and Casualty Insurance Committee, started a discussion about low-income drivers' access to auto insurance.

The two committees also tasked a group of regulators to investigate the use of lender-placed insurance. During a public hearing at the Summer National Meeting in Atlanta, regulators heard comments on rates, consumer disclosures and how the relationships between lender and insurance company affect the transaction.

Across the country, insurance companies are using computerized systems to evaluate and pay claims. In 2012, the Committee began a discussion of these systems to gather data and background for a better understanding of how they are used in the claims process.

A Government Accountability Office (GAO) Report on Veterans' Pension Benefits included a finding that some insurance agents and brokers may be guiding veterans to annuities and investments that are inappropriate for their needs. Following a committee discussion of the issue and supplementing already strong annuity suitability protections, the NAIC issued a consumer alert reminding veterans and their families to review annuity products closely before signing a contract.

As part of their commitment to continuous improvement in the area of market regulation, the Committee distributed a survey to all NAIC jurisdictions to collect information regarding current market regulation practices. The survey sought information on states' use of NAIC market information systems; the types of market regulatory actions most often used when interaction with a company is required; examiner qualifications and the engagement of qualified individuals to perform examinations; examination expenses with a specific focus on the use of contractor examiners; and the coordination of market conduct examinations. The survey results were released in August. A small, informal working group of regulators from the NAIC and legislators from the National Conference of Insurance Legislators (NCOIL) are working together to further the discussion of the survey results and to address market regulation concerns that have been expressed by legislators.

The uses of the Market Conduct Annual Statement (MCAS) collection system was further enhanced with the MCAS Outlier Analysis Project. Using 2011 MCAS data, regulators identified “outliers” among nationally significant insurance companies with regard to underwriting and claims handling. This allows reviewers to coordinate with the domestic regulators of these “outliers” to perform additional analysis and, if necessary, recommend further action. In addition, the Working Group focused on the National Analysis Project. This undertaking, while similar to the MCAS Project, includes a review and analysis of all data in the NAIC systems, such as exams, complaints, and state regulatory actions.

National Association of Insurance Commissioners
2012 Annual Report: Six Degrees of the NAIC

Discussion Topic: Consumer Education

Preparation and protection were the key themes of 2012 consumer outreach efforts. A high-profile partnership reminded consumers about the NAIC's "go-to" resources, while high-tech apps provided tools for "on-the-go" assistance.

Preparing for Retirement and Beyond
Grammy® award-winning singer/songwriter Amy Grant joined the NAIC's campaign to specifically engage the "sandwich generation" – baby boomers with kids at home who are also caring for aging parents and planning their own retirement. Grant was chosen because of a personal story that involved insurance: she helped nurse her mother through dementia at the end of her mother's life and became aware of the benefits of a good aging plan that includes insurance. Grant teamed with the NAIC on a radio Public Service Announcement (PSA) that told of her experience and how Insure U can help boomers prepare for the future. Grant and NAIC President and Florida Insurance Commissioner Kevin M. McCarty launched the year-long partnership during a nationwide satellite media tour (SMT) in June. Those interviews aired more than 30 times to an audience of more than 4.5 million consumers. The national PSA aired more than 15,000 times to approximately 53 million listeners before the end of the year. The estimated ad value for these airings is more than $3.5 million**.** Interviews with Grant appeared in publications such as *People*, *Parade*, *Wall Street Journal* and *Guideposts*. Grant brought additional national attention to the cause when she discussed the Insure U program on Katie Couric's talk show, "Katie."

WRECKCHECK **Makes Auto Claims Easier**
Knowing what to do when there's an accident is important when preparing for a cross-country road trip or just a quick run to the store. In 2012, the NAIC made that easier with a new consumer smartphone application called *WRECKCHECK*. Developed entirely in-house, the app is available for both the iPhone and Android phones. It walks consumers through what to do following an accident and tracks important information to help file a claim with their auto insurer. The app features a checklist and tips for consumers, in addition to photo and voice recording capabilities for documenting an accident. It has been downloaded more than 11,000 times since its release in August.

Disaster Preparedness & Superstorm Sandy
In 2012, the U.S. suffered approximately $65 billion in insured losses following natural disasters. Mitigation and education are the best ways to brace for possible losses in a weather event, and the NAIC continues to highlight the importance of a home inventory. In the spring, NAIC President McCarty kicked off severe weather season with a SMT to remind consumers that disasters can strike anywhere at any time. He gave 34 interviews across the country, reaching more than 4 million consumers. His engagement helped them find the NAIC's home inventory checklist smartphone app, *MyHome Scr.APP.book*, which is also available for the iPhone and Android phones, and has been downloaded more than 37,000 times.

In the fall, the convergence of two weather systems created Superstorm Sandy, which pounded the Eastern Seaboard with near hurricane-force winds, and inundated the coastline with flood waters. State insurance departments were ahead of the storm, helping consumers prepare and mitigate as much as they could. After the storm, departments from across the country pooled resources to assist the states hit hardest. NAIC members responded by setting up a call center to handle overflow consumer calls coming into the New Jersey Department of Banking and Insurance. Starting on November 15, volunteer regulators spent close to 460 hours in the Kansas City Central Office handling more than 850 rollover calls, ensuring consumers had access to information and resources immediately following the storm.

College-Age Kids Learn if They Should 'Insure This?'

A new arm of the Insure U program – *InsureThis?* – targets the Under 30/Gen Y demographic. For this outreach, the NAIC took a different approach. Instead of traditional media tactics such as news releases, the program utilizes online and social media tools. The *InsureThis?* campaign includes ten "Life Lesson" cards that emphasize the need for self-education about insurance issues using humorous photos and sayings/questions; a new Insure U Facebook page; a sweepstakes to draw millennials to the Facebook page; a new Under 30 landing page on the Insure U website that outlines key insurance issues Gen Y consumers face with helpful resources; and a new Under 30 quiz. The Public Information Officers (PIOs) in each state received tool kits to help facilitate their own Gen Y-friendly campaign. The Facebook page already has nearly 3,000 likes since its launch in October 2012.

Recognition

The NAIC's extensive consumer outreach and education efforts were recognized by the Greater Kansas City Public Relations Society of America with eight PRISM awards for excellence in communications and public relations. The NAIC received two Gold PRISMs recognizing the *MyHome Scr.App.Book* home inventory smartphone application and the 2011 NAIC Online Annual Report. Additionally, six Silver PRISMs were awarded to the NAIC for initiatives including the annual KidCast, Press Kits/Media Kits provided to PIOs and the National Meeting Daily News newsletter.

National Association *of* Insurance Commissioners

FINANCIAL STATEMENTS

December 31, 2012 and 2011

2012 ANNUAL REPORT

Six Degrees *of* NAIC

Reflecting. Protecting. Connecting.

National Association of Insurance Commissioners

Financial Report
December 31, 2012

Contents

McGladrey

Independent Auditor's Report

Honorable Members
National Association of Insurance Commissioners
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association of Insurance Commissioners (the NAIC), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of the NAIC for the year ended December 31, 2011 were audited by other auditors whose report, dated February 17, 2012, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Association of Insurance Commissioners as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Kansas City, Missouri
March 7, 2013

National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	**$ 17,112,481**	$ 5,128,461
Accounts receivable, less allowance for doubtful accounts of 2012 - $2,916,044 and 2011 - $2,294,387	**8,248,429**	10,887,177
Interest receivable	**124,981**	117,102
Incentive receivable (Note 4)	**159,221**	150,208
Prepaid expenses	**3,242,233**	3,190,101
Inventories	**290,891**	279,460
Investments (Note 2)	**77,869,512**	66,543,155
Total current assets	**107,047,748**	86,295,664
Operating Note Receivable (Note 6)	**2,950,139**	2,638,742
Incentive Receivable (Note 4)	**1,939,436**	2,098,657
Property and Equipment, net (Note 3)	**17,618,278**	16,173,622
Total assets	**$ 129,555,601**	$ 107,206,685
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 1,859,658**	$ 1,515,049
Accrued expenses and other current liabilities	**11,946,821**	9,792,614
Deferred revenue	**6,690,638**	5,987,882
Total current liabilities	**20,497,117**	17,295,545
Deferred lease incentive	**13,059,175**	10,246,749
Deferred pension liability (Note 5)	**5,712,385**	10,039,221
Total liabilities	**39,268,677**	37,581,515
Unrestricted Net Assets:		
Allocated	**80,194,317**	63,640,825
Allocated – Structured Securities Project	**8,851,310**	4,988,543
Unallocated	**1,241,297**	995,802
Total unrestricted net assets	**90,286,924**	69,625,170
Total liabilities and net assets	**$ 129,555,601**	$ 107,206,685

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues:		
Database fees	**$ 26,325,812**	$ 25,637,971
Publications and subscriptions	**19,242,691**	19,223,563
Services	**21,052,173**	18,542,761
Administrative services/license fees	**7,738,857**	5,785,064
Member assessments	**2,256,559**	2,210,160
Education and training	**952,888**	1,354,149
National meeting registration fees	**3,059,268**	1,228,425
Other	**685,134**	139,574
Total revenues	**81,313,382**	74,121,667
Expenses:		
Salaries	**37,803,800**	36,128,777
Temporary personnel	**368,378**	384,842
Employee benefits	**11,662,559**	10,325,573
Professional fees	**9,555,323**	7,393,921
Travel	**4,058,057**	3,599,854
Rental and maintenance	**6,027,887**	8,176,709
Depreciation and amortization	**3,566,807**	3,251,674
Insurance	**470,532**	441,648
Office supplies	**1,874,061**	1,741,480
Printing expense	**164,790**	196,709
Meetings	**2,722,149**	954,373
Education and training	**1,603,116**	1,473,442
Bad debt expense	**629,085**	583,501
Other	**379,410**	327,888
Total expenses	**80,885,954**	74,980,391
Changes in net assets before Structured Securities Project, investment income, SPL Cost Recovery and pension adjustment	**427,428**	(858,724)
Direct Structured Securities Project revenues	**12,180,047**	11,895,051
Direct Structured Securities Project expenses	**(8,108,987)**	(8,442,647)
Indirect NAIC staff support of project	**(208,292)**	(282,541)
Investment income (Note 2)	**7,184,645**	1,715,350
SPL Cost Recovery	**6,881,392**	1,911,095
Changes in net assets before pension adjustment	**18,356,233**	5,937,584
Pension adjustment	**2,305,521**	(4,118,856)
Changes in net assets	**20,661,754**	1,818,728
Net assets, beginning of year	**69,625,170**	67,806,442
Net assets, end of year	**$ 90,286,924**	$ 69,625,170

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Changes in net assets	**$ 20,661,754**	$ 1,818,728
Adjustments to reconcile changes in net assets		
to net cash flows from operating activities:		
Interest income included in operating note receivable	**(61,397)**	(52,294)
Depreciation and amortization	**3,566,887**	3,251,674
Net realized and unrealized (gains) losses on investments	**(3,752,072)**	375,760
Gain on sale of property and equipment	**(98,040)**	(5,485)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable, net	**2,638,748**	(4,845,140)
Decrease (increase) in incentive receivable	**150,208**	(2,248,865)
Decrease (increase) in interest receivable	**(7,879)**	15,287
Increase in prepaid expenses	**(52,132)**	(706,766)
Increase in inventories	**(11,431)**	(8,089)
Increase in accounts payable	**344,609**	816,765
Increase in accrued expenses and other current liabilities	**2,154,207**	2,502,586
Increase in deferred revenue	**702,756**	318,277
Increase in deferred lease incentive	**2,812,426**	10,246,749
Increase (decrease) in deferred pension liability	**(4,326,836)**	5,696,621
Net cash provided by operating activities	**24,721,808**	17,175,808
Cash Flows from Investing Activities:		
Advances made on operating note receivable	**(250,000)**	(400,000)
Purchase of property and equipment	**(14,708,145)**	(13,289,360)
Proceeds from disposition of property and equipment	**9,794,642**	5,485
Purchase of investments	**(26,101,634)**	(17,183,707)
Proceeds from disposition of investments	**18,527,349**	16,200,672
Net cash (used in) investing activities	**(12,737,788)**	(14,666,910)
Net increase in cash and cash equivalents	**11,984,020**	2,508,898
Cash and Cash Equivalents:		
Beginning of year	**5,128,461**	2,619,563
End of year	**$ 17,112,481**	$ 5,128,461

See Notes to Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The National Association of Insurance Commissioners (the NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Cash and cash equivalents: The NAIC considers all liquid investments with original maturities of one year or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted of money market funds and discount notes.

Accounts receivable: Accounts receivable are stated at the amounts billed to customers. The NAIC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory pricing: Inventories are stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or market.

Investments: The NAIC carries its investments in marketable securities with readily determinable fair values, and all investments in debt securities, at their fair values determined by reference to public exchanges. The NAIC reports the fair value of alternative investments using the practical expedient. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Financial instruments: Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses, deferred revenue, deferred lease incentive and deferred pension liability. The carrying amounts reported in the statement of financial position for these financial instruments approximate fair value. The fair values of fixed income and equity investments are based on quoted market prices at the reporting date for those or similar investments. The fair values of alternative investments are reported using the practical expedient. The practical expedient allows for use of the net asset value (NAV), either as reported by the investee fund or as adjusted by the NAIC based on various factors.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The NAIC accounts for its investments at fair value. In accordance with the guidance, the NAIC has categorized its investments, based on the priority of the inputs to the valuation technique which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices for identical instruments traded in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable. Also included in Level 2 are investments measured using net asset value (NAV) per share, or its equivalent, that may be redeemed at NAV at or near the reporting date.

Level 3 – Primarily all Level 3 investments are valued using the practical expedient and include those investments that cannot be redeemed at NAV at or near the reporting date, or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Investments and concentrations of credit risk: Financial instruments that potentially subject the NAIC to significant concentrations of credit risk consist principally of cash and investments. The NAIC maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and believes the NAIC's risk is negligible.

Alternative investments are redeemable with the fund at net asset value under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the NAIC's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that, if the NAIC were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Property, plant and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The cost of internally developed software is expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized until such time as the product is available for general release to customers. The development costs of enhancements that extend the life or improve the marketability of the original product are capitalized. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technologies. The cost of capitalized software is amortized on the straight-line method over the products' estimated useful lives.

	Estimated Useful Lives
Furniture and equipment	5 - 12 years
Computer and related equipment	3 years
Computer software	3 - 10 years
Leasehold improvements	12 years

Uses of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of accounting for revenues: Revenue is recognized as follows:

- Database fee revenue is recognized upon the filing of insurance companies' annual statements.
- Publications and subscriptions revenue is recognized when the product is shipped to the customer.
- Services revenue is recognized when the service has been performed.
- License fees consist of revenue earned from a related party for the use of the NAIC’s producer data. Administrative services consist of revenues earned from related parties for administrative services and the use of the NAIC’s facilities and equipment. Revenue from administrative services/license fees is recognized as revenue when the services are performed and when the use of the NAIC’s assets occurs, in accordance with the terms contained in written agreements in effect with related parties.
- Revenue from fees for member assessments apply to an assessment fiscal year ended April 30, and are recorded in the calendar year assessed as receivables and deferred revenue. At December 31 of each year, 1/3 of the assessments are accounted for as deferred revenue.

Income taxes: The NAIC has been granted exemption from income taxes by the Internal Revenue Service under the provisions of Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the NAIC is subject to federal income tax on any unrelated business taxable income.

Uncertain tax positions, if any, are recorded in accordance with FASB ASC 740, Income Taxes. FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2012 or 2011.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net assets: Since 2005, the NAIC's target operating reserve is based on a liquid reserve of 80%, as defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. After a comprehensive review by an outside consultant, to reflect the NAIC's current operating environment, the NAIC adopted on September 22, 2011, a target range of 80% to 91%. Net assets are allocated by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee as a function of the budgeting process. As of December 31, 2012 and 2011, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5% of the next year's projected net assets. The unallocated balance will be used to fund priority initiatives that may arise in the next year.

As of December 31, 2012 and 2011, the amount of direct revenues in excess of direct and indirect expenses arising from the NAIC's Structured Securities project, which includes residential mortgage backed securities and commercial mortgage backed securities, has been allocated for anticipated future work in the area of structured securities and related regulatory services during 2013 and future years. Given the ongoing nature of this activity, it is likely the net assets of this project may be combined with the NAIC's net assets sometime in the future.

Pension plan: The Compensation-Retirement Benefits topic of the FASB ASC requires employers to recognize on their statements of financial position a liability and/or an asset equal to the under-funded or over-funded status of their defined benefit pension and other postretirement benefit plans. The funded status that the NAIC has reported on the statements of financial position under the topic is measured as the difference between the fair value of plan assets and the benefit obligation. The topic also requires that for each under-funded plan, an amount equal to the present value of the next 12 months' expected benefit payments in excess of the fair value of the plan's assets be classified as a current liability. The remainder is classified as a non-current liability.

Functional expenses: The Not-for-Profit Entities topic of the FASB ASC requires not-for-profit organizations to disclose expenses by functional classification. The NAIC presents expenses only by their natural classification in the December 31, 2012 and 2011 statements of activities. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole, and therefore does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.

Reclassifications: Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation.

Note 2. Investments and Investment Income

	2012		2011	
	Cost	**Fair Value**	Cost	Fair Value
Government bonds	**$ 3,233,175**	**$ 3,422,318**	$ 3,484,974	$ 3,706,336
Treasury inflation protected bonds	**3,077,052**	**3,417,862**	2,384,055	2,672,968
Corporate bonds	**8,816,575**	**8,744,454**	6,195,074	6,348,526
Fixed income mutual funds	**14,944,787**	**15,901,567**	11,469,217	12,095,120
Foreign fixed income funds	**4,400,563**	**4,348,119**	3,954,381	3,638,868
International bonds	**491,957**	**506,355**	411,724	427,124
Common stock:				
Industrials	**1,812,758**	**2,362,362**	1,859,510	2,257,371
Consumer discretionary	**1,879,643**	**3,607,121**	2,633,947	3,755,200
Financials	**3,027,305**	**3,720,020**	2,730,006	2,970,141
Information technology	**4,213,729**	**4,966,797**	3,008,039	3,584,289
Other industries	**5,718,239**	**8,293,423**	4,783,053	6,838,676
Foreign common stock	**1,305,478**	**1,659,179**	1,274,845	1,540,488
American depository receipts	**1,516,328**	**2,066,481**	1,414,781	1,747,856
Foreign equity mutual funds	**4,434,395**	**4,868,782**	3,288,236	3,525,125
Master limited partnerships	**4,695,369**	**4,759,911**	2,562,935	2,856,372
Alternative equity funds	**5,065,000**	**5,224,761**	8,765,000	8,578,695
	$ 68,632,353	**$ 77,869,512**	$ 60,219,777	$ 66,543,155

Total investment income (loss) comprises the following:

	2012	2011
Interest and dividend income	**$ 3,432,573**	$ 2,091,110
Net realized gains	**854,424**	316,265
Net unrealized gains (losses)	**2,897,648**	(692,025)
	$ 7,184,645	$ 1,715,350

Note 2. Investments and Investment Income (Continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

December 31, 2012	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 3,422,318	$ -	$ 3,422,318	$ -
Treasury inflation protected bonds	3,417,862	-	3,417,862	-
Corporate bonds	8,744,454	-	8,744,454	-
Fixed income mutual funds	15,901,567	15,901,567	-	-
Foreign fixed income funds	4,348,119	4,348,119	-	-
International bonds	506,355	-	506,355	-
Common stock:				
Industrials	2,362,362	2,362,362	-	-
Consumer discretionary	3,607,121	3,607,121	-	-
Financials	3,720,020	3,720,020	-	-
Information technology	4,966,797	4,966,797	-	-
Other industries	8,293,423	8,293,423	-	-
Foreign common stock	1,659,179	1,659,179	-	-
American depository receipts	2,066,481	2,066,481	-	-
Foreign equity mutual funds	4,868,782	4,868,782	-	-
Master limited partnerships	4,759,911	4,759,911	-	-
Alternative equity funds	5,224,761	-	-	5,224,761
	$ 77,869,512	$ 56,553,762	$ 16,090,989	$ 5,224,761

Note 2. Investments and Investment Income (Continued)

December 31, 2011	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 3,706,336	$ -	$ 3,706,336	$ -
Treasury inflation protected bonds	2,672,968	-	2,672,968	-
Corporate bonds	6,348,526	-	6,348,526	-
Fixed income mutual funds	12,095,120	12,095,120	-	-
Foreign fixed income funds	3,638,868	3,638,868	-	-
International bonds	427,124	-	427,124	-
Common stock:				
Industrials	2,257,371	2,257,371	-	-
Consumer discretionary	3,755,200	3,755,200	-	-
Financials	2,970,141	2,970,141	-	-
Information technology	3,584,289	3,584,289	-	-
Other industries	6,838,676	6,838,676	-	-
Foreign common stock	1,540,488	1,540,488	-	-
American depository receipts	1,747,856	1,747,856	-	-
Foreign equity mutual funds	3,525,125	3,525,125	-	-
Master limited partnerships	2,856,372	2,856,372	-	-
Alternative equity funds	8,578,695	-	-	8,578,695
	$ 66,543,155	$ 44,809,506	$ 13,154,954	$ 8,578,695

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Alternative Fixed Income Funds	Alternative Equity Funds	Total
December 31, 2010	$ 3,989,406	$ 7,699,180	$ 11,688,586
Purchases	-	1,550,000	1,550,000
Settlements	(4,042,362)	-	(4,042,362)
Net realized gains	77,362	-	77,362
Net unrealized losses	(24,406)	(670,485)	(694,891)
December 31, 2011	-	8,578,695	8,578,695
Purchases	-	-	-
Settlements	-	(3,726,282)	(3,726,282)
Net realized gains	-	24,125	24,125
Net unrealized losses	-	348,223	348,223
December 31, 2012	**$ -**	**$ 5,224,761**	**$ 5,224,761**

Note 2. Investments and Investment Income (Continued)

	Alternative Equity Funds	
	2012	2011
Total gains (losses), net, included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	**$ 159,761**	$ (186,305)

The following tables set forth additional disclosure of the NAIC's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of December 31, 2012 and 2011:

Investment	**Fair Value December 31, 2012**	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Notice Period**
Alternative equity funds (A)	**$ 5,224,761**	**$ -**	**Quarterly**	**95 days**

Investment	Fair Value December 31, 2011	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative equity funds (A)	$ 8,578,695	$ -	Quarterly	95 days

(A) This fund aims to generate consistent absolute returns by investing in assets with a diversified group of investment managers through managed account structures ("Managed Account Structures") or in the private investment funds sponsored by investment managers (collectively, "Hedge Fund Managers" or "Hedge Funds").

Note 3. Property and Equipment

Property and equipment at December 31 consisted of the following:

	2012	2011
Furniture and equipment	**$ 4,263,048**	$ 7,228,043
Computer and related equipment	**13,533,508**	12,172,942
Computer software	**21,113,898**	19,674,375
Leasehold improvements	**13,328,367**	11,792,322
	52,238,821	50,867,682
Less accumulated depreciation and amortization	**34,620,543**	34,694,060
	$ 17,618,278	$ 16,173,622

Note 4. Operating Leases

The NAIC leases its office space in Kansas City, New York, and Washington D.C. under noncancellable operating leases. Certain parts of the agreements contain escalation clauses providing increased rentals based on maintenance, utility and tax increases. During the year ended December 31, 2011, a new lease was signed for the Kansas City office, effective as of the expiration of the current lease. Future minimum lease payments related to this lease are included in the schedule below. The NAIC also leases certain office equipment under noncancellable operating leases, which expire at various dates through 2014. The accompanying financial statements reflect rent expense on the straight-line method over the terms of the leases. Total rental expenses under all leases for the years ended December 31, 2012 and 2011 were $2,452,054 and $4,968,631, respectively.

The new Kansas City office space lease includes various lease incentives, free rent and scheduled rent increases. The lessor agreed to pay the NAIC base rental differential payments totaling $2,390,571 plus 6% interest over the course of the initial lease term. Annual payments of $285,140 are being made to the NAIC through fiscal year 2022. The outstanding principal balance of this receivable is reported as an Incentive Receivable on the statement of financial position and had a balance of $1,939,436 and $2,098,657 as of December 31, 2012 and 2011, respectively. This outstanding receivable is being recognized in the statement of activities on a straight-line basis over the life of the lease and is included in the deferred lease incentive described below.

Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. generally accepted accounting principles require that the above items be recognized as a reduction of rental expense over the term of the lease. The unamortized balance in deferred lease incentive was $13,059,175 and $10,246,749 as of December 31, 2012 and 2011, respectively.

Future minimum lease payments at December 31, 2012 are as follows:

Year Ending December 31,	
2013	$ 2,186,716
2014	2,415,849
2015	2,033,941
2016	2,020,795
2017	2,081,035
Thereafter	13,112,899
Total future minimum lease payments	$ 23,851,235

Note 5. Employee Retirement Plans

The NAIC has a noncontributory defined benefit plan (Plan A) covering all employees with a hire date prior to January 1, 2000. The benefits are based on years of service and the employee's compensation for the five consecutive years of the ten latest years of employment that give the highest average.

Note 5. Employee Retirement Plans (Continued)

The following table sets forth the plan's funding status, amount recognized in the NAIC's financial statements, and other required disclosures.

	2012	2011
Projected benefit obligation	**$ (49,573,474)**	$ (46,581,839)
Fair value of plan assets	**43,861,089**	36,542,618
Funded status of plan	**$ (5,712,385)**	$ (10,039,221)
Accrued benefit cost recognized in the statement of financial position	**$ (5,712,385)**	$ (10,039,221)
Accumulated benefit obligation	**$ 49,573,474**	$ 42,033,807
Employer contributions	**$ 4,600,000**	$ 200,000
Benefits paid	**$ (2,065,922)**	$ (331,680)
Service cost	**$ 1,534,032**	$ 1,463,414
Interest cost	**1,893,751**	1,956,791
Return on plan assets	**(2,500,076)**	(2,416,890)
Amortization of net loss	**1,650,978**	774,451
Net pension cost	**$ 2,578,685**	$ 1,777,766

Weighted average assumptions used to determine benefit obligations are as follows:

	2012	2011
Discount rate	**3.67%**	4.34%
Salary rate	**N/A**	4.51%
Measurement date	**December 31, 2012**	December 31, 2011

Weighted average assumptions used to determine net pension costs are as follows:

	2012	2011
Discount rate	**4.34%**	5.06%
Rate of salary increase	**4.51%**	4.51%
Expected return on plan assets	**6.75%**	7.00%

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Note 5. Employee Retirement Plans (Continued)

The following is the plan's weighted average asset allocation by asset category as of December 31, 2012 and 2011 (the measurement date of the plan assets):

	2012	2011
Equity securities	**52.55%**	50.26%
Debt securities	**47.45%**	49.74%

Plan assets are held by an insurance company, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds, U.S. Government securities and other specified investments, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced as necessary based upon the minimum and maximum restrictions set forth in the plan's investment policy statement. Plan assets are valued using Level 1 inputs and are based on unadjusted quoted market prices within active markets.

The benefits expected to be paid to participants over the next 10 years which reflect expected future services as appropriate, as of December 31, 2012 are as follows:

Year Ending December 31,	
2013	$ 4,523,530
2014	3,473,126
2015	3,136,126
2016	2,938,320
2017	3,104,540
2018-2022	21,237,731
Total	$ 38,413,373

The NAIC's best estimate of contributions to be paid during 2013 is $0. The amount is actuarially calculated by the NAIC's independent consultant firm and represents the amount necessary to fully fund the actuarial accrued liability and normal cost of the plan.

The NAIC provides a defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 3.5% of compensation of employees who contributed to Plan B and contributed 2% of all employees' compensation. The pension expense related to Plan B for the years ended December 31, 2012 and 2011 was $1,704,492 and $1,567,474, respectively.

Note 6. Related Party Transactions

Effective January 1, 2006, the NAIC entered into a service agreement with the National Insurance Producer Registry (the NIPR), an affiliated entity, whereby the NAIC provided certain administrative services to the NIPR. The NAIC received a fee computed on 30% of certain NIPR revenues, which represented a license fee for the NIPR to use the NAIC's producer data. In addition, the NAIC received from the NIPR an administrative fee of $1,000,000 for services, facilities, and equipment provided by the NAIC. The NAIC also received a per transaction usage fee from the NIPR related to their use of the NAIC's State Producer Licensing (SPL) System. The SPL fee is intended to compensate the NAIC for its investment and maintenance expenses related to the hardware and software infrastructure that support both the NAIC and the NIPR. Additionally, certain expenses are paid on behalf of, and reimbursed by, the NIPR.

In February 2012, the NAIC and the NIPR have finalized a new License and Services Agreement (the Agreement). The initial term of the agreement is five years and is retroactively effective to January 1, 2012. The agreement will automatically renew each year thereafter unless either party provides written notice of termination to the other party no later than 180 days prior to the end of the renewal period. The terms in the new Agreement provide for a lump-sum payment of $6,881,392 to the NAIC as a cost recovery mechanism for the NAIC's remaining investment in SPL as of December 31, 2011 and do not provide for any repayment to NIPR of this cost recovery amount if the Agreement is cancelled prior to the end of the renewal period. The terms of the Agreement increased the fee for NIPR to use the NAIC’s producer data from 30% to 38%. In addition, the administrative fee changed from a flat fee of $1,000,000 to the actual cost of services, facilities, and equipment provided. With the full reimbursement of NAIC’s previous investment in SPL the per transaction usage fee is no longer applicable. System usage fees for 2012 forward are related to current infrastructure costs.

The total amount charged during the year and amounts owed at year-end for the NIPR are as follows:

	2012	2011
Administrative services provided by NAIC	**$ 1,289,158**	$ 1,000,000
License fee	**$ 8,067,430**	$ 5,789,304
System usage fee	**$ 190,117**	$ -
SPL Cost Recovery	**$ 6,881,392**	$ 1,911,095
Amounts payable to NAIC	**$ 954,568**	$ 995,270

Effective June 2007, the NAIC entered into a service agreement with the Interstate Insurance Product Regulation Commission (the IIPRC), whereby the NAIC provides certain administrative services to the IIPRC. The NAIC received an administrative fee of $125,000 for the years ended December 31, 2012 and 2011. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of the NAIC's System for Electronic Rate and Form Filing. The NAIC also has an operating note receivable due from the IIPRC. Repayment of principal and interest is deferred until certain operating performance measures are met by the IIPRC. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

Note 6. Related Party Transactions (Continued)

The total amounts charged during the year and amounts owed at year-end for the IIPRC are as follows:

	2012	2011
Administrative services provided by NAIC	**$ 125,000**	$ 125,000
License fee paid to NAIC	**$ 25,000**	$ 25,000
Amounts payable to NAIC	**$ 19,983**	$ 38,798
Note payable to NAIC	**$ 2,950,139**	$ 2,638,742

An additional line of credit in the amount of $250,000 to be used by the IIPRC in fiscal year 2013 will be considered by the NAIC at the NAIC 2013 Spring National Meeting.

Note 7. Contingencies

The NAIC is, from time to time, subject to claims and lawsuits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not currently believe the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations or cash flows of the NAIC.

Note 8. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2012 through March 7, 2013, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.