NAIC

National Association *of* Insurance Commissioners

State-Based Insurance Regulation: THE SYSTEM AT WORK

2013 ANNUAL REPORT

National Association of Insurance Commissioners
2013 Annual Report
State Insurance Regulation: ***The System at Work***

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 state insurance departments and provides financial, actuarial, legal, research, technology, market conduct and economic expertise. Staff members research reports, develop uniform statutory financial statements, monitor federal activity, submit legal briefs, conduct educational training programs and much more.

The Center for Insurance Policy and Research (CIPR) leverages NAIC resources to collect and analyze information for use by officials, agencies, and policymakers in the U.S. and abroad. Through seminars, presentations and publications, CIPR efforts enhance:

1. Cooperation between federal, state and international agencies and regulators;
2. Comprehension of insurance-related topics and issues by thought leaders;
3. The exchange of information between the states and the federal government; *and*
4. NAIC and state regulator participation in public policy decisions affecting insurance and the broader financial services sector.

2013 NAIC Organizational Chart

Senator Ben Nelson, Chief Executive Officer

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

Kay Noonan
General Counsel

Jim Woody
Chief Financial Officer

Julie Fritz
Chief Business Strategy & Development Officer

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

Elise Liebers
Senior Director, Financial Regulatory Affairs, International Policy & Market Surveillance

Ethan Sonnichsen
Director, Government Relations

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

Trish Schoettger
Director, Member Services

Scott Holeman
Director, Communications

Todd Sells
Director, Financial Regulatory Services

Tim Mullen
Director, Market Regulation

Charles Therriault
Director, Securities Valuation Office

Eric Kolchinsky
Director, Structured Securities Group

Ed Toy
Director, Capital Markets Bureau

Ramon Calderon
Director, International Policy

Denise Matthews
Director, Information Systems

Kris DeFrain
Director, Research & Actuarial Services

Frosty Mohn
Director, Technical Services

Brent Roper
Director, Human Resources

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 2013. Employee turnover, excluding unavoidable separations such as retirements, was 7.1%.

One of the hallmarks of the NAIC's unique employee benefits, the Infants in the Workplace program, celebrated its 13th year and welcomed 13 new babies to the NAIC offices. Since the program's inception, 136 babies have accompanied their parents to work.

The NAIC fosters a charitable and altruistic environment by encouraging its employees to give back to their communities. In 2013, NAIC staff raised more than $10,000. These funds were donated to 21 local and national charities, including the Alzheimer's Association, March of Dimes, Sleepyhead Beds, Cause for Paws, and more. The NAIC also donated money to Superstorm Sandy relief efforts.

Among the many NAIC volunteer initiatives in 2013 were: collecting non-perishable food items; delivering donated backpacks and school supplies to local schools; organizing blood drives, and gathering gift cards for needy families.

2013 Statistics

3 National Meetings with approximately 5,772 Attendees

55 NAIC Interim Meetings

20 Funded Consumer Reps

630 Million+ Total Media Impressions (TV, Radio, PSAs, Consumer Alerts)

800+ Fulfilled Media Requests

7.7 Million Visits to NAIC Website

561,631 Visits to Insure U Website

2.5 Million Visits to Consumer Information Source (CIS)

7.2 Million Visits to NAIC's Regulator-Only I-SITE Website

648,114 Insurance Product Submissions to the System for Electronic Rate and Form Filing (SERFF)

172 NAIC Publications and Data Products

158 Classroom or Online Education Courses

11 Full Accreditation Reviews

11 Pre-Accreditation Reviews

41 Interim Accreditation Reviews

NAIC Names Senator Ben Nelson as New CEO

In January, the NAIC made a major announcement when it named former Senator Ben Nelson as its new CEO. The appointment marked a return to the NAIC for Sen. Nelson, who served as its Executive Vice President and Chief of Staff from 1982-1985.

Soon after assuming his role, Sen. Nelson stated his goals as CEO, voiced his ardent support for state-based regulation, discussed the importance of engaging in dialogues with international regulators, . He has led the NAIC's efforts to meet the needs of its members and represent their interests at the federal level by reaching out to federal and international governmental entities as well as state government associations, consumers and insurance industry representatives.

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. In 2013, two regulators received this prestigious award.

As Connecticut's chief financial regulator, Kathy Belfi has worked to position the state as a worldwide leader in group supervision and the use of Supervisory Colleges. She manages the state's participation in 15 supervisory colleges and serves as lead for eight of these colleges. Belfi was recognized for her outstanding national leadership on critical group supervision and supervisory college issues.

Frederick Heese has been the Chief Financial Examiner and Division Director at the Missouri Department since 2007. His experience and expertise have been essential in the enhancement of solvency regulation, and he has provided critical insight into the state's work on captives and special purpose vehicles, the development and implementation of the ORSA requirements and holding company model law revisions. In addition, Heese provides essential support to Director John M. Huff in his work on the Financial Stability Oversight Council (FSOC).

Government Affairs

The insurance industry continues to grow as a vibrant source of financial strength in the U.S. Not surprisingly, as a key element in the financial machine, policymakers in Washington, D.C. continue their engagement in the insurance sector. The Government Relations Leadership Council (GRLC) is responsible for coordinating the NAIC's work with, Congress, federal agencies and the administration. As federal legislative and regulatory developments evolve, GRLC is engaged in shaping policy and educating the NAIC's federal counterparts. When the mechanics of the federal government shut down - as it did for 16 days in October - state regulation continued to operate effectively, providing stability and protection of policyholders.

TRIA

The NAIC continues to support efforts in Congress to reauthorize the Terrorism Risk Insurance Act (TRIA), set to expire at the end of 2014. The NAIC has maintained its support that terrorism insurance be available and affordable, and continuity of the program offers stability to the market. At the Summer National Meeting, the NAIC passed a resolution articulating support for TRIA reauthorization. In September, the NAIC sent a letter to the Treasury Department further urging the President's Working Group on Financial Markets to consider the ramifications of a lapse in the program. The NAIC also sent letters to leadership in the U.S. House of Representatives and U.S. Senate.

NARAB II

Another initiative in Congress that the NAIC supports is the creation of the National Association of Registered Agents and Brokers, often referred to as NARAB II. The current legislation pending in Congress largely represents negotiations and consensus between regulators and industry producer groups as to how such an association would be structured to best meet the goal of streamlined producer licensing while assuring state regulatory authority is preserved. 2013 NAIC Vice President and Montana Insurance Commissioner Monica Lindeen testified before Congress on behalf of the NAIC in support of passage of NARAB II in March. The House of Representatives passed the bill in early September, but the Senate did not take action in 2013.

Systemically Important Financial Institutions (SIFIs)

The 2008 financial crisis highlighted how interconnected the gears between financial institutions have become, and the damage that can be done when regulation is out of alignment. In order to better coordinate regulatory action and identify risk, Congress created the Financial Stability Oversight Council (FSOC). Director John Huff from Missouri serves as the state insurance regulator representative to the Council. In 2013, FSOC designated two insurance companies as being systemically important; AIG and Prudential. Some concerns in Director Huff's dissenting opinion on Prudential's Designation raise questions regarding transparency of process and methodology used in the designations. The NAIC continues to monitor the impact that these designations have on the companies as well as the broader insurance markets in which they operate.

Ongoing Coordination and Education

The importance of a coordinated approach between states and the federal government was evident when President Obama requested a meeting with insurance commissioners in November to discuss health insurance reform issues. The group discussed practical implications of implementing the delay in enforcement as well as outstanding questions regarding what specific provisions would be impacted.

Following that meeting, in December, NAIC leadership met with Treasury Secretary Jacob Lew. The focus of the meeting was on significant international developments, including the ongoing EU-U.S. dialogue and Solvency II, the inclusion of state regulators in the work of the Financial Stability Board, and efforts to develop a global capital standard.

In addition to the legislative and regulatory issues that require immediate engagement, there are a number of opportunities for the NAIC to work with members of Congress and the administration to ensure that they understand the insurance regulator perspective as they shape federal policy. For example, in November, Kurt Regner, Assistant Director of the Arizona Department of Insurance, testified before Congress on behalf of the NAIC on housing finance reform issues.

As the Federal Reserve asserts new holding company authorities over thrift holding companies with insurance operations, state regulators continue to meet with Federal Reserve representatives to exchange information and discuss how to best work together going forward.

Regulators continue to monitor other federal activity and work with agencies such as the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau and the Departments of Commerce and Labor as matters that touch the insurance sector arise.

Health Insurance Policy

Since the passage of the Affordable Care Act (ACA) in 2010, states have been gearing up for a slew of reforms. In 2013, the health insurance sector underwent a near complete transformation when health exchange marketplaces opened in every state. Regulators across the country coordinated to meet statutory deadlines and align regulatory policy in a new paradigm. State insurance departments, coordinated through the NAIC, worked with federal agencies on countless reforms.

The NAIC provided insight, guidance and information to the federal government, and supported insurance regulators regardless of the exchange model pursued in their state. While the ACA greatly expanded federal involvement in health insurance standards and oversight, states continue to regulate the health insurance industry. Nevertheless, the NAIC weighed in with the President, Congress and federal agencies on implementation issues that had the potential to destabilize the marketplace.

The Regulatory Alternatives Working Group continued to analyze the impact of the ACA on the regulatory authority of state insurance regulators. The NAIC also adopted a white paper on specific and unique challenges facing the territories.

The Regulatory Framework Task Force reviewed all current models to determine whether they need amending in light of the ACA and will begin making such amendments in 2014. The Task Force has also developed model acts to implement the ACA and is working on model regulations to implement the law in the states. In addition, the ERISA Working Group is developing a White Paper on the potential impact of stop loss coverage in the new small group marketplace and the Health Insurance and Managed Care Committee, along with the Producer Licensing Task Force and the Anti-Fraud Task Force, is in the process of writing a paper to help states address fraud and misleading marketing practices.

To assist regulators in educating consumers through the ACA changes, the NAIC created a Frequently Asked Questions document for states to customize and share with consumers. The NAIC also issued consumer alerts to help individuals make informed decision when shopping on an exchange and gave guidance to avoid fraud when reviewing health care insurance options.

Outside of health reform, the NAIC continues to address challenges in the long-term care market. In June the NAIC held an interim meeting and invited stakeholders to weigh in on the challenges of old policies, as well as addressing market reforms necessary going forward. In December, the NAIC adopted a model bulletin and continues to work on possible amendments to the long-term care insurance models.

International Insurance Supervision

International leadership is a critical focus for NAIC members. The U.S. leads the global insurance market in regulatory advancements and insurance premiums – due largely to the state-based approach to regulation coordinated through the NAIC. State regulators are committed to working with its international counterparts to encourage regulatory innovation and cooperation without undermining the strong U.S. system.

Throughout 2013, NAIC members led and participated in a number of fronts to serve the U.S. insurance marketplace and advance effective regulatory frameworks globally. NAIC CEO Senator Ben Nelson updated Congress on these efforts when he testified before Congress in June. Nelson urged Congress to be wary of international regulatory approaches that are too rigid, or apply a "one-size-fits-all" approach to issues like group supervision.

International Insurance Forum

In May, the NAIC hosted the 6th annual International Insurance Forum in Washington, D.C. The two-day conference featured NAIC members, representatives from the International Monetary Fund and the Federal Reserve Board, and CEOs from internationally active insurance companies. More than 200 people attended the forum to discuss issues such as effective group supervision, policyholder protection structures and financial stability in the insurance sector.

International Association of Insurance Supervisors

As a founding member of the International Association of Insurance Supervisors (IAIS), U.S. regulators remain committed to using the association as a forum for coordination and global standard-setting. IAIS members continue to work on a regulatory framework for Internationally Active Insurance Groups (IAIGs). In August 2013, the NAIC released a position paper on ComFrame to articulate the views of U.S. state insurance regulators, who believe the goal of ComFrame should be to support flexible approaches that achieve common regulatory outcomes instead of rigid guidance that could impose additional and unwarranted new requirements on IAIGs.

EU-U.S. Insurance Dialogue Project

For more than a decade, U.S. regulators have engaged their European counterparts on ways to increase cooperation and harmonize regulatory approaches where appropriate. In 2012, regulators were joined by representatives from Treasury, the European Commission and European Insurance and Occupational Pensions Authority (EIOPA) in a formalized dialogue, with specific objectives outlined in a joint report and set of common objectives. The EU-U.S. Dialogue Project Steering Committee convened a public forum on December 14 in conjunction with the NAIC Fall National Meeting in Washington, D.C. Participants discussed international insurance issues including international group supervision and supervisory colleges.

Regulatory Cooperation

The NAIC remains committed to both educating and learning from insurance supervisors globally. U.S. regulators and NAIC staff participated in technical trainings and dialogues with regulators from the Association of Latin American Insurance Supervisors (ASSAL), China and Thailand. In addition, regulator-to-regulator dialogues were held with supervisors from Bermuda, Canada, China, Japan, and Switzerland. These meetings allow for cross-border insurance information sharing, coordination of policy and standard-setting.

International Fellows

The NAIC International Fellows Program continued in 2013 with two classes. The purpose of the Fellows Program is to advance relationships with foreign regulators and emphasize the exchange of effective regulatory techniques and tools. The conclusion of the fall session brings total participation to 198 regulators from 28 countries since the program's inception in 2004. Thirty-seven U.S. jurisdictions have hosted fellows.

Financial Regulation

Financial examinations and analysis are central to solvency oversight. By utilizing comprehensive tools and resources (e.g. Financial Analysis Solvency Tools (FAST) scores and handbooks) regulators are able to minimize insolvencies and their corresponding impact on policyholders. In addition, state regulators carry out periodic risk-focused, on-site financial examinations in which they evaluate the insurer's corporate governance, management oversight and financial strength.

In addition to encompassing important solvency-related considerations related to the U.S. state-based system of insurance regulation, major efforts in financial regulation highlight the NAIC's continuing efforts to be responsive to the challenges and needs of a global marketplace. Highlights from 2013 include the following:

Group Supervision — Twenty-four jurisdictions passed key amendments to their holding company statutes, which will aid them in better assessing the contagion risks present in the business enterprise that include insurers. U.S. insurance regulators are modifying the group supervisory framework and have been increasingly involved in leading the development of an international group supervisory framework.

Reinsurance — The NAIC adopted the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions in August 2013, which was developed to evaluate the reinsurance supervisory systems of non-U.S. jurisdictions for reinsurance collateral reduction purposes. Under the NAIC model law and regulation regarding credit for reinsurance, reinsurers licensed and domiciled in a qualified jurisdiction are eligible to be certified for reduced reinsurance collateral requirements. Based on the review and recommendation by the Qualified Jurisdiction (E) Working Group, the NAIC approved the reinsurance supervisory authorities in Bermuda (for limited classes of (re)insurers), Germany, Switzerland and United Kingdom as conditional qualified jurisdictions, to be effective January 1, 2014. While the NAIC list is not binding, it must be considered by the states in making qualified jurisdiction determinations.

Additionally, the Reinsurance Financial Analysis (E) Working Group was established to provide a peer review process for individual states' certified reinsurer designations. The working group's procedures are intended to facilitate consistency among the states in the process of certifying reinsurers, as well as promote and coordinate multi-state efforts in addressing related issues. To date, the working group has conducted peer reviews with respect to 30 certifications issued thus far by various states.

Principle-Based Reserving (PBR) — With the adoption of the *Standard Valuation Law* (#820) and *Valuation Manual,* the NAIC directed its efforts to the implementation of PBR. An implementation plan was developed which addresses regulatory and NAIC staff resources, the process of collecting company experience data using a statistical agent, development of analysis and examination procedures, statutory blanks changes and the creation of a Valuation Analysis (EX) Working Group to provide oversight and consistent application of PBR across each jurisdiction.

Reserving for Universal Life Insurance Policies — The NAIC successfully negotiated the proper valuation methodology for universal life insurance policies with secondary guarantees and has implemented the oversight mechanism to help ensure application by insurers and insurance regulators of *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies* (AG 38), which is commonly referred to as Regulation AXXX.

Use of Captives — The NAIC adopted a white paper evaluating the use of insurer-owned captives and forwarded its recommendations to the Principle-Based Reserving Implementation (EX) Task Force and the Reinsurance (E) Task Force. The Principle-Based Reserving Implementation (EX) Task Force is utilizing an outside consultant to mediate a consensus framework for life insurers' use of captives for business subject to Regulation AXXX and/or the Valuation of Life Insurance Policies Model Regulation (#830), which is commonly referred to as Regulation XXX. The Financial Regulation Standards and Accreditation (F) Committee is considering changes to the definition of "multi-state" with regard to any reinsurance ceded from an insurer to a captive (excluding pure captives), and these potential changes would address many of the remaining recommendations from the white paper.

Financial Regulation Standards and Accreditation Program

The NAIC Financial Regulation Standards and Accreditation Program was established to maintain standards to promote effective financial solvency regulation. NAIC accreditation allows non-domestic jurisdictions to rely on the accredited domestic regulator to fulfill a baseline level of 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. During 2013, 11 full accreditation reviews, 41 interim annual reviews, and 11 pre-accreditation reviews were conducted.

Financial Examination File Review Project

The NAIC supports the Financial Examination Peer File Review Project to assist the jurisdictions in implementing the risk-focused approach to financial examinations. This project involves NAIC staff and examination supervisors from various jurisdictions working together to review and discuss completed exam files. It also provides the opportunity for regulators to develop best practices for conducting risk-focused exams, give and receive feedback for consideration on future exams, and offer input on how enhancements can be made to the guidance and training made available by the NAIC to improve the implementation of risk-focused examinations.

Three sessions of the project were completed in 2013, with 27 exam files from 21 different jurisdictions reviewed. Since the project began in 2011, nine sessions have been completed with a total of 81 exam files reviewed from 46 different jurisdictions.

International Insurers Department (IID)

The International Insurers Department (IID) functions as a national gatekeeper for non-U.S. insurers to gain access to the U.S. excess and surplus lines markets. This function includes solvency monitoring and trust account maintenance of all NAIC-listed insurers, as well as oversight and analysis with respect to the process for considering new applications. Eight new insurers were added to the NAIC list during 2013. The most recent financial statistics (2012) reflect that listed insurers wrote direct surplus lines premiums of more than $9.0 billion, or approximately 26% of the $34.3 billion in total U.S. surplus lines premiums written for the year. At year-end 2013, listed insurers maintained $4.4 billion in trust assets which are held as collateral against gross claim liabilities estimated at $14.3 billion.

Structured Securities Group

The NAIC established a Structured Securities Group (SSG), housed at the Capital Markets and Investment Analysis Office in New York. The SSG is an internal team of investment professionals that builds upon the NAIC's technical expertise to provide specialized analysis, valuation, research and reporting for structured securities. The NAIC first began modeling expected losses for non-agency residential mortgage-backed securities (RMBS) CUSIPs owned by insurance companies at the end of 2009. This project was successful and expanded in 2010 to include commercial mortgage-backed securities (CMBS) CUSIPs owned by insurance companies. During 2013, the NAIC continued to monitor insurers' investments in all types of structured securities, with 1,838 insurers in 52 jurisdictions utilizing NAIC structured securities modeling for the purposes of completing their annual statement and risk-based capital filings. Modeled results were delivered via the NAIC's Automated Valuation Service (AVS+), traditionally used for delivery of NAIC designations and unit prices, through which each insurer could view and download their specific RMBS and CMBS holdings via a secure web-based environment.

MARKET REGULATION

Consumer protection is the hallmark of the NAIC's mission. Through the work of the Market Regulation and Consumer Affairs (D) Committee, state regulators ensure that insurance products and services are subject to continuous improvement and informed by the importance of access and affordability of insurance.

Through tracking, compiling, review and oversight, the comprehensive market regulatory process addresses issues that can have a broad impact, such as streamlined producer licensing legislation. In March 2013, NAIC Vice President and Montana Insurance Commissioner Monica J. Lindeen testified before Congress at a hearing entitled *Streamlining Regulation, Improving Consumer Protection and Increasing Competition in Insurance Markets.* Lindeen's testimony outlined a number of key components of the National Association of Registered Agents and Brokers Reform Act of 2013 (NARAB II). She conveyed the NAIC's support of legislation that is intended to preserve state-based insurance regulation and consumer protections and allows states to retain their regulatory authority over consumer protection, market conduct and unfair trade practices.

Market Conduct Annual Statement (MCAS)

MCAS provides a uniform system of collecting market-related information. The NAIC began hosting MCAS in 2009 for 29 members. In 2013, there were 46 participating jurisdictions. Through MCAS, the NAIC assists the jurisdictions with receiving MCAS filings, provides data validation, and enhances the analysis of market conduct information across all participating jurisdictions. There were 26,149 MCAS filings submitted and centrally stored at the NAIC in 2013.

Complaints Database System (CDS)

There were 182,782 complaints submitted by the jurisdictions to the CDS in 2013.The CDS contains information about closed consumer complaints filed against insurance entities and producers. Data contained within the CDS is submitted by state insurance departments on a regular basis in an automated manner. The jurisdictions are able to leverage nationwide data through CDS that would not otherwise be available to individual jurisdictions. There are four closed consumer complaint reports: Closed Complaint Counts by Code; Closed Complaint Counts by State; Closed Complaint Trend Report; and Closed Complaint Index.

Special Activities Database (SAD)

The SAD contains information related to market activities and legal actions involving entities engaged in the business of insurance. This database contains suspicious activities, legal cases, indictments and issues of regulatory concern researched and obtained from state insurance regulators or other legitimate resources, including the Financial Industry Regulatory Authority (FINRA). There were 1,758 special activities added in 2013.

Online Fraud Report System (OFRS)

The OFRS is used by NAIC-member jurisdictions to receive referrals of suspected fraud from consumers and the insurance industry. The NAIC also receives reports from the National Insurance Crime Bureau (NICB). The NICB receives reports from more than 90% of the property/casualty carriers doing business in the United States. The NAIC received 59,501 reports in 2013 that were distributed to members. Increased reporting of fraud to the jurisdictions helps reduce fraud, which, in turn, cut insurers' expenses, protects consumers and reduces costs passed along to consumers through insurance premiums and costs of services.

Life Claims Settlement and MAWG

The Investigations of Life Insurance and Annuities Claims Settlement Practices (D) Task Force is actively coordinating investigations of the use of the Social Security Death Master File (DMF) by annuity companies and life insurers. The Task Force is leading a review to determine if companies asymmetrically used the DMF to stop annuity payments while not using the DMF to determine if life insurance proceeds should have been paid to beneficiaries. To date, the Task Force has completed investigations of 15 of the largest life insurance groups, which wrote 60% of the national direct written premium for life and annuities products in 2010, the year the Task Force determined the need to conduct the investigations.

The Market Actions (D) Working Group provides a forum for market conduct collaboration between jurisdictions and conducts national level analysis initiatives. The Working Group oversees ongoing multi-state market conduct examinations and conducts a formal review of companies identified in the Market Conduct Annual Statement process. In 2013, the analysis process included the identification of 41 individual companies that required additional review. After further analysis, jurisdictions entered into collaborative investigations, thus reducing the number of single state actions and duplication of effort. In addition, jurisdictions noted that the analysis project itself was able to resolve several concerns that might have led to examinations.

Consumer Education

Protecting policyholders remains one of the NAIC's top priorities, and to accomplish this charge, the NAIC focuses on consumer education. When consumers are aware of their insurance needs, they are able to make well-informed decisions that will ensure they are protected—and may even save them money. In 2013, the NAIC expanded on its already extensive consumer education program and reached out to more demographics using new, different channels.

Amy Grant Performs an Encore for the NAIC

After a successful 2012 campaign that included her popular radio PSA for baby boomers, singer-songwriter Amy Grant returned as the NAIC's celebrity spokesperson for 2013. In the spring, Grant filmed a television PSA at her home in Nashville. Using her personal experience of caring for her aging parents as they battle dementia, Grant continued to emphasize the importance of preparing for the complex financial decisions—many with insurance implications—that boomers face as they care for aging parents, get their children ready to leave the nest, and plan for their own retirement. The new PSA debuted at the 2013 Spring National Meeting in Houston as part of a special "Backstage with Amy Grant" event.

Teens Get a Crash Course At Insure U

According to AAA, more teenage motor vehicle fatalities happen in the summer than any other time of year. Teen drivers are also at increased risk for fatal crashes with each additional passenger. To counter these statistics, research shows that teens whose parents set rules for behavior behind the wheel are half as likely to get into an accident. This research compelled the NAIC to focus its summer Insure U campaign on educating parents of teen drivers about the risks and insurance implications of unsafe driving. The NAIC used an infographic to show eye-opening facts for parents of new drivers, and created a customizable teen driver contract that allows parents and teens to clearly define the rules and consequences associated with driving privileges. Tyler Presnell, an advocate for safer teen driving, partnered with the NAIC to educate parents by doing a radio media tour (RMT) that aired on more than 1,200 stations and reached more than 15 million consumers.

Insure U Says "I Do"

In the fall, the NAIC conducted a survey among newlyweds and recently engaged couples, and found that for couples embarking on the journey to combine their financial lives, the real adventure often begins *after* the honeymoon is over. To help brides and grooms get smart about insurance together without tearing each other apart, the NAIC launched the "I Do" Adventures. This integrated initiative includes a number of resources for newlyweds to learn about buying or combining insurance, including the *Insurance Survival Guide for Newlyweds*, a consumer alert, and two interactive games that entertain while also teaching important lessons about auto and homeowners insurance. In just two months, the games received more than 2,500 visits. The NAIC also partnered with financial expert Manisha Thakor for a radio media tour (RMT). Thakor's interviews, which featured essential money-saving tips for young couples, were aired in major markets such as Boston and Chicago, and reached an audience of more than 500,000 consumers.

NAIC's Mobile Apps

WRECKCHECK, the NAIC's free accident checklist mobile app, celebrated its first anniversary in August. In just one year, *WRECKCHECK* has earned more than 17,500 downloads. The NAIC's award-winning home inventory app, *MyHome Scr.APP.book* surpassed 42,000 downloads in 2013. Together, both apps have been downloaded more than 60,000 times on iPhones and Android devices.

Communications Outreach Recognized

In October, the NAIC Communications Division won 10 PRISM awards—a clean sweep—from the Kansas City chapter of the Public Relations Society of America (PRSA). Four Gold awards went to the NAIC's *WRECKCHECK* app, the 2012 Annual Report, and "Senator to CEO: NAIC Transition," which earned a perfect score under Reputation & Brand Management. The NAIC also won Silver PRISM awards for the 2012 PIO Forum; Insure U's InsureThis? campaign; KidCast: WreckCheck Edition; the NAIC Daily News newsletters; the Amy Grant radio PSA; and the Amy Grant Consumer Education Partnership.

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State-Based
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THE SYSTEM AT WORK

2013 ANNUAL REPORT

FINANCIAL STATEMENTS

December 31, 2013 and 2012

National Association of Insurance Commissioners

Financial Report
December 31, 2013

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 statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial 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 audits. We conducted our audits 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Kansas City, Missouri
February 21, 2014

National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	**$ 10,077,381**	$ 17,112,481
Accounts receivable, less allowance for doubtful accounts of 2013 - $3,363,524 and 2012 - $2,916,044	**11,626,833**	8,248,429
Interest receivable	**118,474**	124,981
Incentive receivable (Note 4)	**168,774**	159,221
Prepaid expenses	**2,793,419**	3,242,233
Inventories	**129,152**	290,891
Investments (Note 2)	**104,514,651**	77,869,512
Total current assets	**129,428,684**	107,047,748
Operating Note Receivable (Note 6)	**3,017,206**	2,950,139
Incentive Receivable (Note 4)	**1,770,662**	1,939,436
Property and Equipment, net (Note 3)	**17,784,667**	17,618,278
Total assets	**$ 152,001,219**	$ 129,555,601
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 1,639,975**	$ 1,859,658
Accrued expenses and other current liabilities	**15,268,440**	11,946,821
Deferred revenue	**6,427,378**	6,690,638
Total current liabilities	**23,335,793**	20,497,117
Deferred lease incentive (Note 4)	**11,889,696**	13,059,175
Deferred pension liability (Note 5)	**1,429,835**	5,712,385
Total liabilities	**36,655,324**	39,268,677
Unrestricted Net Assets:		
Allocated	**100,515,366**	80,194,317
Allocated – Structured Securities Project	**13,082,237**	8,851,310
Unallocated	**1,748,292**	1,241,297
Total unrestricted net assets	**115,345,895**	90,286,924
Total liabilities and net assets	**$ 152,001,219**	$ 129,555,601

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2013 and 2012

	2013	2012
Revenues:		
Database fees	**$ 26,363,745**	$ 26,325,812
Publications and insurance data products	**19,642,679**	19,242,691
Services	**23,211,707**	21,052,173
Administrative services/license fees	**7,797,077**	7,738,857
Member assessments	**2,300,773**	2,256,559
Education and training	**1,088,128**	952,888
National meeting registration fees	**1,893,100**	3,059,268
Other	**293,422**	685,134
Total revenues	**82,590,631**	81,313,382
Expenses:		
Salaries	**39,824,038**	37,803,800
Temporary personnel	**382,344**	368,378
Employee benefits	**11,111,860**	11,662,559
Professional fees	**8,738,683**	9,555,323
Travel	**4,112,537**	4,058,057
Rental and maintenance	**5,649,529**	6,027,887
Depreciation and amortization	**3,968,462**	3,566,807
Insurance	**474,336**	470,532
Office supplies	**1,775,608**	1,874,061
Printing expense	**322,645**	164,790
Meetings	**1,792,093**	2,722,149
Education and training	**1,546,635**	1,603,116
Bad debt expense	**404,326**	629,085
Other	**374,502**	379,410
Total expenses	**80,477,598**	80,885,954
Changes in net assets before Structured Securities Project, investment income, SPL Cost Recovery and pension adjustment	**2,113,033**	427,428
Direct Structured Securities Project revenues	**14,205,132**	12,180,047
Direct Structured Securities Project expenses	**(9,527,938)**	(8,108,987)
Indirect NAIC staff support of project	**(446,267)**	(208,292)
Investment income (Note 2)	**13,504,318**	7,184,645
SPL Cost Recovery	**-**	6,881,392
Changes in net assets before pension adjustment	**19,848,278**	18,356,233
Pension adjustment	**5,210,693**	2,305,521
Changes in net assets	**25,058,971**	20,661,754
Net assets, beginning of year	**90,286,924**	69,625,170
Net assets, end of year	**$ 115,345,895**	$ 90,286,924

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Changes in net assets	$ 25,058,971	$ 20,661,754
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Interest income included in operating note receivable	(67,067)	(61,397)
Depreciation and amortization	3,968,462	3,566,887
Net realized and unrealized (gains) on investments	(10,473,490)	(3,752,072)
(Gain) loss on sale of property and equipment	6,530	(98,040)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,378,404)	2,638,748
Incentive receivable	159,221	150,208
Interest receivable	6,507	(7,879)
Prepaid expenses	448,814	(52,132)
Inventories	161,739	(11,431)
Accounts payable	(219,683)	344,609
Accrued expenses and other current liabilities	3,321,619	2,154,207
Deferred revenue	(263,260)	702,756
Deferred lease incentive	(1,169,479)	2,812,426
Deferred pension liability	(4,282,550)	(4,326,836)
Net cash provided by operating activities	13,277,930	24,721,808
Cash Flows from Investing Activities:		
Advances made on operating note receivable	-	(250,000)
Purchase of property and equipment	(4,158,907)	(14,708,145)
Proceeds from disposition of property and equipment	-	9,794,642
Purchase of investments	(40,267,655)	(26,101,634)
Proceeds from disposition of investments	24,113,532	18,527,349
Net cash (used in) investing activities	(20,313,030)	(12,737,788)
Net increase (decrease) in cash and cash equivalents	(7,035,100)	11,984,020
Cash and Cash Equivalents:		
Beginning of year	17,112,481	5,128,461
End of year	$ 10,077,381	$ 17,112,481

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, 2013 and 2012, cash equivalents consisted of money market funds and discount notes. The NAIC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

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 and deferred revenue. The carrying amounts reported in the statement of financial position for these financial instruments approximate fair value due to the short-term maturity of these instruments. 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 insurance data products 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.

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

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, 2013 or 2012.

Net assets: The NAIC operating reserve is based on a liquid reserve, defined as total net assets, less net property and equipment, as a percentage of the future year’s budgeted operating expenses. On September 22, 2011, following a comprehensive review by an outside consultant to reflect the NAIC’s current operating environment, the NAIC adopted a target liquid reserve 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, 2013 and 2012, 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, 2013 and 2012, 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, the net assets of this project will be combined with the NAIC’s net assets on January 1, 2014.

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, 2013 and 2012 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.

Note 2. Investments and Investment Income

	2013		2012	
	Cost	**Fair Value**	Cost	Fair Value
Government bonds	**$ 3,793,154**	**$ 3,887,247**	$ 3,233,175	$ 3,422,318
Treasury inflation protected bonds	**3,550,997**	**3,628,588**	3,077,052	3,417,862
Corporate bonds	**11,030,830**	**10,821,367**	8,816,575	8,744,454
Fixed income mutual funds	**18,176,521**	**18,524,162**	14,944,787	15,901,567
Foreign fixed income funds	**5,809,976**	**5,478,455**	4,400,563	4,348,119
International bonds	**491,957**	**493,930**	491,957	506,355
Common stock:				
Industrials	**2,433,922**	**3,817,014**	1,812,758	2,362,362
Consumer discretionary	**1,669,227**	**4,237,783**	1,879,643	3,607,121
Financials	**3,236,080**	**4,547,921**	3,027,305	3,720,020
Information technology	**4,722,747**	**6,748,983**	4,213,729	4,966,797
Other Industries	**12,285,122**	**19,066,658**	5,718,239	8,293,423
Foreign common stock	**1,130,843**	**1,980,656**	1,305,478	1,659,179
American depository receipts	**583,544**	**1,036,336**	1,516,328	2,066,481
Foreign equity mutual funds	**5,989,121**	**7,191,383**	4,434,395	4,868,782
Master limited partnerships	**4,650,670**	**6,318,727**	4,695,369	4,759,911
Alternative equity funds	**6,065,000**	**6,735,441**	5,065,000	5,224,761
	$ 85,619,711	**$ 104,514,651**	$ 68,632,353	$ 77,869,512

Total investment income (loss) comprises the following:

	2013	2012
Interest and dividend income	**$ 3,030,828**	$ 3,432,573
Net realized gains	**805,504**	854,424
Net unrealized gains (losses)	**9,667,986**	2,897,648
	$ 13,504,318	$ 7,184,645

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, 2013	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 3,887,247	$ -	$ 3,887,247	$ -
Treasury inflation protected bonds	3,628,588	-	3,628,588	-
Corporate bonds	10,821,367	-	10,821,367	-
Fixed income mutual funds	18,524,162	18,524,162	-	-
Foreign fixed income funds	5,478,455	5,478,455	-	-
International bonds	493,930	-	493,930	-
Common stock				
Industrials	3,817,014	3,817,014	-	-
Consumer discretionary	4,237,783	4,237,783	-	-
Financials	4,547,921	4,547,921	-	-
Information technology	6,748,983	6,748,983	-	-
Other Industries	19,066,658	19,066,658	-	-
Foreign common stock	1,980,656	1,980,656	-	-
American depository receipts	1,036,336	1,036,336	-	-
Foreign equity mutual funds	7,191,383	7,191,383	-	-
Master limited partnerships	6,318,727	6,318,727	-	-
Alternative equity funds	6,735,441	-	-	6,735,441
	$ 104,514,651	$ 78,948,078	$ 18,831,132	$ 6,735,441

Note 2. Investments and Investment Income (Continued)

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

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

	Alternative Equity Funds
December 31, 2011	$ 8,578,695
Settlements	(3,726,282)
Net realized gains	24,125
Net unrealized gains	348,223
December 31, 2012	5,224,761
Purchases	1,000,000
Net unrealized gains	510,680
December 31, 2013	**$ 6,735,441**

Note 2. Investments and Investment Income (Continued)

	Alternative Equity Funds	
	2013	2012
Total gains (losses), net, included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	**$ 670,441**	$ 159,761

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, 2013 and 2012:

Investment	**Fair Value December 31, 2013**	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Notice Period**
Alternative equity funds (A)	**$ 6,735,441**	**$ -**	**Quarterly**	**95 days**

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

	2013	2012
Furniture and equipment	**$ 4,427,273**	$ 4,263,048
Computer and related equipment	**13,756,669**	13,533,508
Computer software	**23,027,388**	21,113,898
Leasehold improvements	**13,917,500**	13,328,367
	55,128,830	52,238,821
Less accumulated depreciation and amortization	**37,344,164**	34,620,543
	$ 17,784,666	$ 17,618,278

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. 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, 2013 and 2012 were $2,128,464 and $2,452,054, respectively.

The 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 non-current principal balance of this receivable is reported as an Incentive Receivable on the statement of financial position and had a balance of $1,770,662 and $1,939,436 as of December 31, 2013 and 2012, 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 $11,889,696 and $13,059,175 as of December 31, 2013 and 2012, respectively.

Future minimum lease payments at December 31, 2013 are as follows:

Year Ending December 31,	
2014	$ 2,911,370
2015	2,681,352
2016	2,686,202
2017	2,655,239
2018	2,674,144
Thereafter	15,261,056
Total future minimum lease payments	$ 28,869,363

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.

	2013	2012
Projected benefit obligation	**$ (45,301,021)**	$ (49,573,474)
Fair value of plan assets	**43,871,186**	43,861,089
Funded status of plan	**$ (1,429,835)**	$ (5,712,385)
Accrued benefit cost recognized in the statement of financial position	**$ (1,429,835)**	$ (5,712,385)
Accumulated benefit obligation	**$ 45,301,021**	$ 49,573,474
Employer contributions	**$ -**	$ 4,600,000
Plan settlements	**$ (4,712,077)**	$ (1,682,163)
Benefits paid	**$ (472,732)**	$ (383,759)
Service cost	**$ -**	$ 1,534,032
Interest cost	**1,754,409**	1,893,751
Return on plan assets	**(2,687,668)**	(2,500,076)
Amortization of net loss	**1,861,402**	1,650,978
Net pension cost	**$ 928,143**	$ 2,578,685

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

	2013	2012
Discount rate	**4.65%**	3.67%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2013**	December 31, 2012

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

	2013	2012
Discount rate	**3.67%**	4.34%
Rate of salary increase	**N/A**	4.51%
Expected return on plan assets	**6.75%**	6.75%

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, 2013 and 2012 (the measurement date of the plan assets):

	2013	2012
Equity securities	**52.31%**	52.55%
Debt securities	**47.69%**	47.45%

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, 2013 are as follows:

Year Ending December 31,	
2014	$ 3,586,166
2015	3,046,424
2016	2,653,258
2017	2,704,816
2018	3,020,110
2019-2023	16,466,061
Total	$ 31,476,835

While there is no obligation to contribute to Plan A, the NAIC is considering a contribution of approximately $1.4 million in 2014. The annual 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 in 2012 and 3% in 2013. The pension expense related to Plan B for the years ended December 31, 2013 and 2012 was $2,128,193 and $1,704,492, respectively.

Note 6. Related Party Transactions

In February 2012, the NAIC and the NIPR 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 of revenue recognized during the year and amount owed at year-end from the NIPR are as follows:

		2013		2012
Revenue:				
Administrative services/license fees:				
Administrative services provided by NAIC	**$**	**1,115,147**	$	1,289,158
License fee		**6,338,373**		6,134,582
System usage fee		**218,557**		190,117
	$	**7,672,077**	$	7,613,857
Services, license fee	**$**	**2,887,405**	$	1,932,846
SPL Cost Recovery	**$**	**-**	$	6,881,392
Accounts receivable from NIPR	**$**	**914,981**	$	954,568

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, 2013 and 2012. 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 amount of revenue recognized during the year and amounts owed at year-end from the IIPRC are as follows:

	2013	2012
Revenue:		
Administrative services/license fees:		
Administrative services provided by NAIC	**$ 125,000**	$ 125,000
Services, license fee	**$ 25,000**	$ 25,000
Accounts receivable from IIPRC	**$ 37,597**	$ 19,983
Operating note receivable from IIPRC	**$ 3,017,206**	$ 2,950,139

An additional line of credit in the amount of $150,000 to be used by the IIPRC in fiscal year 2014 will be considered by the NAIC at the NAIC 2014 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, 2013 through February 21, 2014, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.

Subsequent to December 31, 2013, the NAIC signed a new lease for the Capital Markets and Investment Analysis Office in New York City. This lease is for 18,844 square feet on the 42nd floor of One New York Plaza. The total obligation under this lease, which ends on June 30, 2027, is $10,238,573. This amount is not included in the minimum lease payment schedule of this report.