

# 2024 NAIC **Budget**

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Adopted by NAIC Membership

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## **2024 NAIC BUDGET**

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NOTE: Audited financial statements are included in the NAIC Annual Report located at <https://content.naic.org/about>

# Executive Summary

## NAIC 2024 Budget



NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

### About the NAIC

The National Association of Insurance Commissioners (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, insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight activities. NAIC staff support these efforts and represent the collective domestic and international views of insurance regulators.

NAIC members, together with the central resources of the association, form the national system of state-based insurance regulation in the U.S. NAIC members are elected or appointed government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents/brokers in their respective jurisdictions.

The NAIC's annual budget supports the many valuable services and benefits provided to insurance regulators, insurance consumers, and the insurance industry. Each year, the budget is developed with the goal of helping the membership to accomplish its key strategic priorities.

For the past three and a half years, the NAIC has faced unprecedented challenges. While the NAIC was not immune to many of the difficulties faced by members or the industry, it remained steadfast in support of regulators and achieved many objectives set forth in the organization's prior strategic plan, *State Ahead*. That strategic plan, while remaining flexible so that the organization can appropriately and sufficiently respond to emerging issues, was the compass to assist navigation through challenges. *State Ahead* served as a beacon, a guiding light, of the membership's vision for how the NAIC can help support the future of insurance regulation.

In 2022, the membership began a rigorous review of its strategic plan and laid a path for the next three to four years' worth of major initiatives and objectives. The work was strenuous but critical to ensure the NAIC can continue supporting regulators and is appropriately positioned to respond in the quickly evolving marketplace of insurance. The NAIC must be nimble enough to respond to technological driven advancements including the expanded use of artificial intelligence and to challenges including the availability and affordability of insurance due to catastrophic losses or increased frequency of loss.

Accordingly, the NAIC's new strategic plan, *State Connected*, builds on previous successes and prepares staff and system infrastructure for the next ten years of support. With 32 goals spread across six strategic focus areas, NAIC membership and leadership have laid a formidable path, upping the game of insurance regulation.

Highlighting just a few of the strategic focus areas, one can easily picture the vision for the next generation of insurance regulation. As an example, one strategic focus area centers around member connectivity and aims to strengthen collaboration and engagement among NAIC members and their staff through streamlined communications, a

dedicated member directory, and community portals. Regulators are on the ground floor of insurance regulation and the expertise they can share with other regulators will only benefit a cohesive and sound

regulatory environment. Another strategic focus will supplement the training, expertise, and technology offered by the NAIC. As the NAIC is often referred to as a hub for its members, a revamped and improved training platform, improved access to additional subject matter experts, and enhancements to the NAIC's technology infrastructure will help regulators address new insurance risks while utilizing new tools and information. In fact, data is so critical that it is the emphasis of its own strategic focus area, referred to as the data and analysis strategic focus. This will provide regulators with increased data access and will combine information from several independent sources. This will further enhance analysis and provide increased information for regulators to make informed decisions regarding the companies they regulate.

Beyond strategic objectives, the 2024 budget continues NAIC's commitment to supporting a variety of programs, products, and services in the financial solvency and market regulatory arenas. The NAIC offers a wide range of systems, services, data, accreditation reviews, and many other essential services to assist insurance regulators in achieving their fundamental insurance regulatory goals in a timely and cost-effective manner. Through this approach, the NAIC stands by to maintain the U.S. as one of the strongest and most resilient insurance markets in the world.

## Support of the Membership

The mission of the NAIC is to assist insurance regulators in serving the public interest; promoting a competitive marketplace; facilitating the fair and equitable treatment of insurance customers; ensuring the reliability, solvency, and financial stability of insurers; and supporting and improving insurance regulation. Leveraging NAIC technology solutions, regulatory tools, and staff resources allow members to achieve these goals at significant cost savings. Without these options, many systems would be cost-prohibitive for the jurisdictions to implement on their own. If each member were to independently support the technological infrastructure required for effective insurance regulation, the cost to regulate insurers would be exponentially more expensive – costs that would be passed on to insurers and increase their cost of doing business.

Membership in the NAIC provides a range of benefits and services – often at no charge. Among other items, members receive jurisdiction funding, training, and access to data and numerous regulatory tools; the value of which far exceeds what a jurisdiction pays in member dues.

## A Focus on Consumers

The NAIC provides a multi-channel approach to reach and assist consumers to help them make informed decisions and effectively use their insurance benefits. Using multi-pronged marketing communications campaigns, the NAIC strives to reach insurance consumers whether through consumer education articles, the NAIC Home Inventory mobile app, or targeted social media campaigns.

### By the Numbers

NAIC products and services make life easier.

- ▶ **System for Electronic Rates & Forms Filing (SERFF)** – 520,910 transactions processed in 2022.
- ▶ **Online Premium Tax for Insurance (OPTins)** – 180,202 transactions processed in 2022.
- ▶ **State Based Systems (SBS)** – back-office services currently licensed to 34 jurisdictions with an additional jurisdiction onboarding in 2024.
- ▶ **Professional Designation Program** – 1,969 designations awarded since the program's inception in 2006 through year-end 2022.
- ▶ **Center for Insurance Policy and Research (CIPR) Key Research Issues** – nearly 150 briefs currently available online including NAIC key initiatives and topics ranging from cybersecurity and innovation to natural catastrophe risk and resiliency.

## **Valuable Products and Services**

The NAIC seeks to support its mission through a wide variety of products and services offered to regulators, the insurance industry, and insurance consumers. For regulators and those in industry, the NAIC offers web-based systems that automate, standardize, and streamline regulatory processes by transmitting data and facilitating regulatory transactions. For consumers, the NAIC offers a wide range of informational products to help consumers make informed decisions.

The NAIC is committed to not only maintaining existing systems but is also dedicated to enhancing its infrastructure by staying current on new emerging technologies. This ensures regulators have the information they need to ensure consumer protection and a fair, competitive, healthy insurance market. Accordingly, the 2024 budget includes six fiscal impact statements (fiscals), four of which are technology based and either continue the work of ongoing modernization efforts or begin modernization efforts on other critical regulatory support systems. The remaining fiscals will increase the NAIC's ability to serve the membership through an improved regulator training platform with enhanced certification offerings and provide other specialized support services.

## **Building the Budget**

The NAIC strives for transparency in its budget process as well as in its operations. The budget process gets underway in May each year, when department managers evaluate current-year revenues and expenses to assess the year-end picture, then propose a budget for the following year based on their operational objectives and member initiatives. Managers carefully focus on variances between the current year's budget and projected results and anticipated business needs for the coming year. This process includes a review of all projects, products, programs, services, committee charges, and technology initiatives in light of the NAIC's mission and the membership's strategic priorities. NAIC senior management then reviews each department budget in detail with its division director to make adjustments according to the strategic and financial needs of the association and ultimately consolidates all requests into a single, comprehensive budget.

Following the extensive development and internal review process, the budget is presented to the NAIC Officers, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee, and the full NAIC membership before being released for public review and comment. To ensure transparency, a public hearing is held to receive comments before final consideration and adoption by the NAIC Executive (EX) Committee and Plenary.

## **Expected Results for 2023**

Based on actual operating results through June 30, 2023, the NAIC projects an operating margin of \$1.7 million compared to a budgeted negative operating margin of \$6.0 million, an improvement of \$7.7 million. Investment income is projected to be a gain of \$7.3 million, resulting in a net asset increase of nearly \$9.0 million, ending the year at \$177.9 million. It's important to note that while investment income is projected at \$4.9 million over budget at year-end, markets remain volatile. Additionally, the projected gain does not cover the \$16.8 million investment loss suffered in 2022.

## **2024 Budget**

Looking forward to 2024, NAIC's budget continues to demonstrate investment in critical regulatory support infrastructure and in items that will create meaningful impact for the members and industry, which of course then benefits the insurance consumer. In addition, NAIC's budget remains keenly focused on prudent financial management and ensures resources are being used in a way to create the most

value. If 2024 is anything like the past couple of years, it may very well present challenges not yet on the horizon. Membership and management remain dedicated to making investments in infrastructure and personnel as requirements evolve.

The 2024 NAIC operating budget (before including investment income) reflects revenues of \$154.0 million and expenses of \$158.4 million, which represent a 6.5% and a 5.2% increase, respectively, from the 2023 budget, resulting in \$4.4 million in projected expenses over revenues. Viewed in relation to the 2023 projected totals, the 2024 budget represents an operating revenue increase of 3.1% and operating expense increase of 7.2%. Additional information about the 2024 budget is included in the detailed footnotes of the budget.

A fiscal impact statement is prepared for new or existing NAIC initiatives with revenue, expense, or capital impacts of \$100,000 or more either in the current budget or within the following few years' budgets, or which require more than 1,150 hours of internal technical resources to accomplish. Each fiscal includes a detailed description of the initiative; impact on key stakeholders; financial and operational impact; and an assessment of the risks. The total financial impact of the six fiscals included in the 2024 budget is \$3.4 million in expenses and \$10.6 million in capital. Additional information about each initiative is included in the various fiscal sections of the budget.

The 2024 budget includes \$3.3 million in investment income from the NAIC's long-term investment portfolio. Investment income is composed of interest and dividends earned, reduced by investment management fees. Investment gains and losses are volatile and therefore are not projected

## 2024 Fiscal Impact Statements

- ▶ **SERFF Modernization – 2024 Transition Stages** This project is in its third year of a multi-year initiative to improve the SERFF platform. In 2024, users will move into the platform beginning with the Insurance Compact then life users. In 2025, property/casualty and health will transition followed by plan management in 2026. This request includes the addition of three headcount.
  - Expense of \$689K for headcount, travel, and amortization.
  - Capital of \$5.8M for professional and other services.
- ▶ **Enterprise Data Asset Management – Phase III** This fiscal continues to expand the Enterprise Data Platform through integrating additional datasets (such as SBS, SERFF, OPTins) and provides regulators with systems training. This fiscal includes the addition of two headcount for dataset integration and ongoing system maintenance.
  - Expense of \$1.2M for staffing, consulting, software, training, and travel.
- ▶ **Expand NAIC Expertise – 2024** Recognizing the need for specialty skillsets in a variety of areas, this fiscal includes the addition of the following four headcount:
  - P/C Modeling Analyst to assist with increasing demand for rate reviews.
  - Cybersecurity Policy Advisor to support cybersecurity and cyber insurance policy discussions.
  - Two Policy and Research Analysts to support data calls, dashboarding, and other research related items.
  - Expense of \$457K for staffing.
- ▶ **NAIC Education & Training Modernization Project** Expands and modernizes training and professional development programs available to insurance regulators. In addition to system modernization, the project envisions expanding offerings up to as many as 40 professional designations. This fiscal includes the addition of two headcount.
  - Expense of \$530K for staffing, consulting, training, and software.
- ▶ **IT VISION System Enhancements – 2024** A multi-year information technology related project necessary to optimize Multiple Issuer and Security Identifiers, enhance document management, ensure the system is flexible for future business capabilities, and upgrade the security valuation platform utilized by the Securities Valuation Office. This fiscal includes the addition of three headcount.
  - Expense of \$354K for staffing.
  - Capital of \$1.6M for professional and other services.
- ▶ **Uniform Certificate of Authority Application (UCAAA) – Phase II** This project continues development and will integrate additional applications into the platform including corporate expansion, and domestic and foreign corporate amendments. This fiscal also includes the addition of one headcount.
  - Expense of \$130K for staffing.
  - Capital of \$3.2M for professional and other services.



nor included in the budget.

Combining budgeted results from operations with budgeted investment income, the 2024 budget has a reduction in net assets of \$1.1 million.

**Ensuring Financial Stability**

The NAIC maintains an operating reserve that is designed to ensure organizational financial stability in the event of emerging business risks and uncertainties and also provides an avenue to absorb new priority initiatives pursued by NAIC membership. The association’s reserve status is of paramount consideration in the budgeting process, as is strong and prudent financial management of the NAIC’s assets.

**Operating Reserve Target**

The reserve makes assets available to allow an organization to take mission-related risks and to absorb or respond to changes in its environment or circumstances.

In 2022, following an extensive review of current and future risks and an evaluation of comparable organizations by an independent financial advisory firm, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved the establishment of a new methodology for determining the NAIC operating reserves.

The new methodology looks at three areas of reserves: working capital needed to maintain day-to-day operations over three months; an assessment of the funds needed to mitigate potential risks if certain events were to occur; and the funding necessary

for strategic initiatives planned in the upcoming three years that are not currently included in the budget. Based on the evaluation of these three areas, the Subcommittee increased NAIC’s operating reserve target for 2023 to \$179.8 million. This target recognizes the increased level of uncertainty facing the NAIC and anticipated future investments required to enhance the association’s information technology and technical infrastructure, represented by many elements that are now part of the 2024 budget.

**Preparing for the Unknown**

The budget includes all activities anticipated to occur in 2024. However, situations or additional strategic or emerging projects may arise during 2024 that require additional funding. In such an event, a funding request will be prepared and presented to the Executive (EX) Committee and Internal Administration (EX1) Subcommittee for consideration. Supplemental funding can come from the Regulatory Modernization and Initiatives Fund, an extra layer of protection established in 2005 to manage requests that arise following the adoption and implementation of an annual budget. This fund is based on 1.5% of the NAIC’s projected net assets as of December 31, 2024, or \$2.7 million.

**Contact Information**

The NAIC appreciates the opportunity to present this 2024 budget and believes it provides a comprehensive review of the NAIC’s business and financial operations for the current and upcoming fiscal year. A summary of the key components of the 2024 budget is included in the budget overview.

Please contact Jim Woody, Chief Financial Officer, at [jwoody@naic.org](mailto:jwoody@naic.org), or Carol Thompson, Senior Controller, at [cthompson@naic.org](mailto:cthompson@naic.org), should you have any questions or need additional information.



# **2024 Budget Overview**



# Current State

- The NAIC has returned to a full slate of in-person meetings although the meetings also have a robust virtual component which allows members, NAIC staff, and interested parties to participate remotely.
- The NAIC began to implement the priorities outlined in the NAIC's new strategic plan, *State Connected*. This new plan continues the work begun in the prior strategic plan, *State Ahead*, with a focus in six major areas:
  - Member Connectivity
  - Training, Expertise, and Technology
  - Data and Analytics
  - Consumer Education, Outreach, and Advocacy
  - Committee Governance and Management
  - NAIC Operations
- The NAIC continues to be flexible in how it manages its operations, maintaining as its primary focus providing outstanding support to its members and others that depend on the services provided by the NAIC.

# Financial Performance in 2023 is above budget

(dollars in millions)

	2022 Actual	2023 Budget	2023 Projection	Change 2023 Budget vs 2023 Projection
Operating Revenue	\$134.3	\$144.6	\$149.4	\$4.8
Operating Expense	134.2	150.6	147.7	(2.9)
Operating Revenues Over/(Under) Expenses	0.1	(6.0)	1.7	7.7
Investment Income	(16.8)	2.4	7.3	4.9
Net Revenues Over/(Under) Expenses	(\$16.7)	(\$3.6)	\$9.0	\$12.6

Operating results are expected to be above budget by \$7.7M due to a \$4.8M (3.3%) over run in operating revenue and a \$2.9M (1.9%) under run in operating expense.

Investment income is expected to be \$4.9M over budget due to realized and unrealized net investment losses impacting both equity and fixed income investments.

Overall, net assets at the end of 2023 are expected to increase by \$9.0M, ending the year at \$177.9M.

# 2023 Revenues

(dollars in millions)

	Budget	Projection	Variance
Member Assessments	\$2.1	\$2.1	
Database Fees	40.2	41.0	\$0.8
Publications and Insurance Data Products	18.1	18.2	0.1
Valuation Services	30.3	32.7	2.4
Transaction Filing Fees	21.7	22.0	0.3
National and Major Meetings	3.1	2.9	(0.2)
Education and Training	0.4	0.4	
Administrative Services and License Fees	28.5	29.7	1.2
Other	0.2	0.4	0.2
<b>Total Revenue</b>	<b>\$144.6</b>	<b>\$149.4</b>	<b>\$4.8</b>

**With one exception, all revenue categories are at or slightly above budget:**

- Administrative Services and License Fees revenue is above budget due to higher-than-budgeted revenues generated by the NAIC's affiliate National Insurance Producer Registry (NIPR).
- Valuation Services is above budget due to the increased number of securities reviewed and sales of CMBS/RMBS individual designations.
- National and Major Meetings fees are lower than budgeted due to fewer paid registrations for most meetings.

# 2023 Expenses

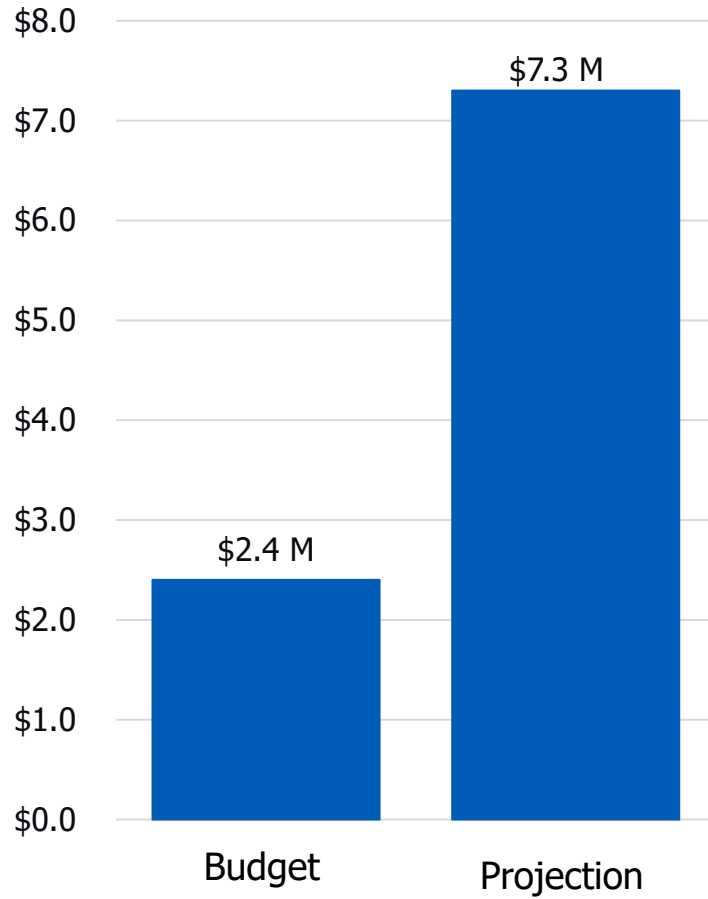
(dollars in millions)

	Budget	Projection	Variance
Salaries, Taxes, and Benefits	\$89.6	\$86.3	(\$3.3)
Professional Services	17.4	17.0	(0.4)
Computer Services	8.7	8.6	(0.1)
Travel	5.6	5.6	
Occupancy and Rental	4.6	4.6	
Computer Hardware and Software Maintenance	8.2	8.8	0.6
Depreciation and Amortization	4.4	4.1	(0.3)
National and Major Meetings	5.7	6.2	0.5
Education and Training	0.3	0.3	
Grant and Zone	2.8	2.7	(0.1)
Administrative and Operational	3.3	3.5	0.2
<b>Total Expense</b>	<b>\$150.6</b>	<b>\$147.7</b>	<b>(\$2.9)</b>

**Most expense categories were at or slightly below budget, resulting in a 1.9% budget under run.**

- Staffing costs (salaries, taxes, and benefits) comprise 58.4% of projected expenses and are 3.7% below budget due to more open positions than projected as a result of the challenging recruiting environment as well as lower than budgeted defined benefit plan costs.
- Professional Services costs are 2.3% under budget due to the timing of systems implementations.
- Computer Hardware and Software Maintenance is 7.3% over budget due to the acquisition of software needed during 2023 that was not anticipated during the budgeting process.
- Depreciation and Amortization expenses are 6.8% under budget due to delays in deployment of a few major projects as well as cost savings on the initial phase of the ERP project.
- National and Major Meetings are 8.8% over budget principally due to increased audio-visual costs at meetings and an unbudgeted employee training event.

# 2023 Investment Income



The composition of the NAIC's investment portfolio is a diversified blend of fixed income, equities, real assets, and alternative investments. Through September, the portfolio's return is positive. However, the financial markets remain challenged and difficult to predict. Market volatility is relatively high as world economic growth is slowing while political unrest and climate concerns are increasing.



# Looking to 2024

The NAIC will have a full slate of in-person meetings in 2024, all with a hybrid component to allow participants to attend remotely. Travel costs are anticipated to increase due to inflationary pressures.

Projects associated with *State Connected* will continue to move forward. There are six fiscals associated with this strategic plan included in the 2024 budget. Four of the projects are technology based to continue to modernize NAIC applications while the other two fiscals are focused on enhancing regulator education and training and providing specialized services to the members.

The NAIC will complete the implementation of its new enterprise resource planning (ERP) system in 2024, which will provide an integrated platform for human resource management and financial support systems.

# 2024 Budget

(dollars in millions)

	2022 Actual	2023 Budget	2023 Projection	2024 Budget	2024 Budget Increase (Decrease) from 2023 Budget	2024 Budget Increase (Decrease) from 2023 Projection
<b>Operating Revenue</b>	\$134.3	\$144.6	\$149.4	\$154.0	\$9.4	\$4.6
<b>Operating Expense</b>	134.2	150.6	147.7	158.4	7.8	10.7
<b>Operating Revenues Over/(Under) Expenses</b>	0.1	(6.0)	1.7	(4.4)	1.6	(6.1)
<b>Investment Income</b>	(16.8)	2.4	7.3	3.3	0.9	(4.0)
<b>Net Revenues Over/(Under) Expenses</b>	<u>(\$16.7)</u>	<u>(\$3.6)</u>	<u>\$9.0</u>	<u>(\$1.1)</u>	<u>\$2.5</u>	<u>(\$10.1)</u>

Operating revenues are budgeted to increase by \$4.6M compared to the 2023 projection, an overall increase of 3.1%.

Operating expenses are budgeted to increase \$10.7M over the 2023 projection and are \$7.8M higher than the 2023 budget. There are six fiscals included in the 2024 budget with expenses of \$3.4M and capital incurrences of \$10.6M.

Investment income is budgeted to be \$3.3M in 2024. This represents interest and dividends earned less investment management fees. Realized and unrealized gains and losses are not budgeted due to the unpredictable nature of the financial markets.

After the inclusion of investment income, the NAIC's net assets are budgeted to decline \$1.1M.

# 2024 Operating Revenue

(dollars in millions)

	2022 Actual	2023 Budget	2023 Projection	2024 Budget	2024 Budget Increase (Decrease) from 2023 Budget	2024 Budget Increase (Decrease) from 2023 Projection
Member Assessments	\$2.1	\$2.1	\$2.1	\$2.1		
Database Fees	34.4	40.2	41.0	42.3	\$2.1	\$1.3
Publications and Insurance Data Products	17.3	18.1	18.2	18.3	0.2	0.1
Valuation Services	31.2	30.3	32.7	33.0	2.7	0.3
Transaction Filing Fees	18.1	21.7	22.0	23.2	1.5	1.2
National and Major Meetings	2.2	3.1	2.9	3.0	(0.1)	0.1
Education and Training	0.4	0.4	0.4	0.4		
Administrative Services and License Fees	28.4	28.5	29.7	31.4	2.9	1.7
Other	0.2	0.2	0.4	0.3	0.1	(0.1)
<b>TOTAL OPERATING REVENUES</b>	<b>\$134.3</b>	<b>\$144.6</b>	<b>\$149.4</b>	<b>\$154.0</b>	<b>\$9.4</b>	<b>\$4.6</b>

## Operating revenues increase \$4.6M compared to 2023 projection:

- Database fees anticipates premium growth between 2.5 - 3.9% and an increase in the individual and group cap of 6.1% based on the 2022 CPI-U.
- Valuation Services revenues increase due to slight price adjustments for the financial modeling of CMBS/RMBS securities as well as SVO designations.
- Transaction Filing Fees increase \$1.2M due to a price increase in SERFF filing fees based on the 2022 CPI-U, new jurisdictions on the SBS platform, and a 15% price increase for IID filings to reflect an increase in CPI-U over the past three years.
- National and Major Meetings registration revenues increase by \$0.1M due to an increase in the number of paid registrations as well as a slight increase (\$50) in national meeting and insurance summit registration fees.
- Administrative Services and License Fees increase by \$1.7M due to anticipated growth in NIPR revenues.

# 2022 Actual – 2024 Budget Revenue Composition

(dollars in millions)

	2022 Actual	2022 Composite Mix	2023 Budget	2023 Budget Composite Mix	2023 Projection	2023 Projection Composite Mix	2024 Budget	2024 Composite Mix
Member Assessments	\$2.1	1.6%	\$2.1	1.5%	\$2.1	1.4%	\$2.1	1.4%
Database Fees	34.4	25.6%	40.2	27.8%	41.0	27.4%	42.3	27.5%
Publications and Insurance Data Products	17.3	12.9%	18.1	12.5%	18.2	12.2%	18.3	11.9%
Valuation Services	31.2	23.2%	30.3	21.0%	32.7	21.9%	33.0	21.4%
Transaction Filing Fees	18.1	13.5%	21.7	15.0%	22.0	14.7%	23.2	15.1%
National and Major Meetings	2.2	1.6%	3.1	2.1%	2.9	1.9%	3.0	2.0%
Education and Training	0.4	0.3%	0.4	0.3%	0.4	0.3%	0.4	0.3%
Administrative Services and License Fees	28.4	21.2%	28.5	19.7%	29.7	19.9%	31.4	20.4%
Other	0.2	0.2%	0.2	0.1%	0.4	0.3%	0.3	0.2%
<b>TOTAL OPERATING REVENUES</b>	<b>\$134.3</b>	<b>100.0%</b>	<b>\$144.6</b>	<b>100.0%</b>	<b>\$149.4</b>	<b>100.0%</b>	<b>\$154.0</b>	<b>100.0%</b>

Database Fees remains the largest category at 27.5% of revenues with a \$1.3M increase over 2023 projections due to premium growth and the CPI-U increase in individual and group caps.

Valuation Services continues as the second largest category but is expecting a slight decline in the number of security designations.

Transaction Filing Fees are continuing to grow as new jurisdictions are added to the SBS platform and SERFF revenues continue to increase as the platform undergoes a modernization.

# 2024 Operating Expenses

(dollars in millions)

	2022 Actual	2023 Budget	2023 Projection	2024 Budget	2024 Budget Increase (Decrease) from 2023 Budget	2024 Budget Increase (Decrease) from 2023 Projection
Salaries, Taxes, and Benefits	\$78.9	\$89.6	\$86.3	\$93.6	\$4.0	\$7.3
Professional Services	15.7	17.4	17.0	17.3	(0.1)	0.3
Computer Services	8.2	8.7	8.6	8.9	0.2	0.3
Travel	4.6	5.6	5.6	6.2	0.6	0.6
Occupancy and Rental	4.8	4.6	4.6	4.6		
Computer Hardware and Software Maintenance	7.7	8.2	8.8	10.6	2.4	1.8
Depreciation and Amortization	4.0	4.4	4.1	5.6	1.2	1.5
National and Major Meetings	4.6	5.7	6.2	5.4	(0.3)	(0.8)
Education and Training	0.1	0.3	0.3	0.3		
Grant and Zone	2.1	2.8	2.7	2.4	(0.4)	(0.3)
Administrative and Operational	3.5	3.3	3.5	3.5	0.2	
<b>TOTAL OPERATING EXPENSES</b>	<b>\$134.2</b>	<b>\$150.6</b>	<b>\$147.7</b>	<b>\$158.4</b>	<b>\$7.8</b>	<b>\$10.7</b>

## Operating expenses increase \$10.7M over 2023 projections:

- Salaries, Taxes, and Benefits expenses increase \$7.3M due to an increase in the number of employees as well as merit and market-driven salary increases, and higher healthcare costs per employee.
- Computer Hardware and Software Maintenance expenses increase \$1.8M compared to 2023 projections due to deployment of several major capital projects, such as SERFF modernization, Uniform Certificate of Authority Application (UCAA), and the ERP as well as the costs of software applications required to support the NAIC's technical infrastructure.
- Depreciation and Amortization expenses increase \$1.6M over 2023 projections due to remodel of the NAIC Central Office in Kansas City, MO, a full year of amortization of three major projects, completion of another project, and the addition of capital purchases in 2024 fiscal requests.



# 2022 Actual – 2024 Budget Expense Composition

(dollars in millions)

	2022 Actual	2022 Composite Mix	2023 Budget	2023 Budget Composite Mix	2023 Projection	2023 Projection Composite Mix	2024 Budget	2024 Composite Mix
Salaries, Taxes, and Benefits	\$78.9	58.8%	\$89.6	59.5%	\$86.3	58.4%	\$93.6	59.1%
Professional Services	15.7	11.7%	17.4	11.6%	17.0	11.5%	17.3	10.9%
Computer Services	8.2	6.1%	8.7	5.8%	8.6	5.8%	8.9	5.6%
Travel	4.6	3.4%	5.6	3.7%	5.6	3.8%	6.2	3.9%
Occupancy and Rental	4.8	3.6%	4.6	3.1%	4.6	3.1%	4.6	2.9%
Computer Hardware and Software Maintenance	7.7	5.7%	8.2	5.4%	8.8	6.0%	10.6	6.7%
Depreciation and Amortization	4.0	3.0%	4.4	2.9%	4.1	2.8%	5.6	3.5%
National and Major Meetings	4.6	3.4%	5.7	3.8%	6.2	4.2%	5.4	3.4%
Education and Training	0.1	0.1%	0.3	0.2%	0.3	0.2%	0.3	0.2%
Grant and Zone	2.1	1.6%	2.8	1.9%	2.7	1.8%	2.4	1.5%
Administrative and Operational	3.5	2.6%	3.3	2.2%	3.5	2.4%	3.5	2.2%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$134.2</b>	<b>100.0%</b>	<b>\$150.6</b>	<b>100.0%</b>	<b>\$147.7</b>	<b>100.0%</b>	<b>\$158.4</b>	<b>100.0%</b>

Staffing costs remains the largest category of total expense at 59.1% of budget and reflects the professional and technical nature of most positions.

Professional Services continues to be the second highest category of spending due to costs required to support programs such as accreditation, financial modeling, and new system implementations.

Computer Hardware and Software Maintenance costs support the NAIC's technical applications.

Depreciation and Amortization increases are related to the new office leases in D.C. and KC as well as deployment of several major technology enhancements.

National and Major Meetings expense declines \$0.8M due to the NAIC not hosting the IAIS Global Seminar in 2024.

# 2024 Fiscal Summary

### **SERFF Modernization – 2024 Transition Stages**

This project is in its third year of a multi-year initiative to improve the SERFF platform. In 2024, users will move into the platform beginning with the Insurance Compact then life users. In 2025, property/casualty and health will transition followed by plan management in 2026. This request includes the addition of three headcount.

- The financial impact of this fiscal in 2024 includes:
  - \$0.7M in expenses for staffing, professional services, travel, and amortization; and
  - \$5.8 in capital professional services and software.

### **Enterprise Data Asset Management – Phase III**

This fiscal continues to expand the Enterprise Data Platform through integrating additional datasets (such as SBS, SERFF, OPT*ins*) and provides regulators with systems training. This fiscal includes the addition of two headcount for dataset integration and ongoing system maintenance.

- The financial impact of this fiscal in 2024 includes \$1.2M in expenses for staffing, consulting, software, training, and travel.

# 2024 Fiscal Summary (cont.)

## **Expand NAIC Expertise – 2024**

Recognizing the need for specialty skillsets in a variety of areas, this fiscal requests the addition of four headcount:

- A P/C Modeling Analyst to assist with increasing demand for rate reviews.
- A Cybersecurity Policy Advisor to support cybersecurity and cyber insurance policy discussions.
- Two Center for Policy and Research (CIPR) analysts to support data calls, dashboarding, and other research related items.
- The financial impact of this fiscal in 2024 includes \$0.5M in expenses for staffing.

## **NAIC Education & Training Modernization Project**

Expands and modernizes the training and professional development programs available to insurance regulators. In addition to system modernization, the project envisions expanding offerings up to as many as 40 professional designations. This fiscal includes the addition of two headcount.

- The financial impact of this fiscal in 2024 includes \$0.5M in expenses for staffing, professional services, training and software.

# 2024 Fiscal Summary (cont.)

## **IT VISION System Enhancements – 2024**

A multi-year information technology related project necessary to optimize Multiple Issuer and Security Identifiers, enhance document management, ensure the system is flexible for future business capabilities, and upgrade the security valuation platform utilized by the Securities Valuation Office. This fiscal includes the addition of three headcount.

- The financial impact of this fiscal in 2024 includes:
  - \$0.4M in expenses for staffing, software, and amortization expense; and
  - \$1.6M in capital software and professional services.

## **Uniform Certificate of Authority Application (UCAA) – Phase II**

This project continues development and will integrate additional applications into the platform, including corporate expansion, and domestic and foreign corporate amendments. The fiscal includes the addition of one headcount.

- The financial impact of this fiscal in 2024 includes:
  - \$0.1M in expenses for staffing; and
  - \$3.2M in capital professional services expenses.

# 2024 Fiscal Impact Statements Summary

(dollars in millions)

Initiative	2024 Capital	2024 Revenue	2024 Expense	Net Impact on 2024 Budget
<b>2024 Operational Budget Before Fiscals</b>	\$11.9	\$154.0	\$155.0	(\$1.0)
<b>SERFF Modernization – 2024 Transition Stages</b>	5.8		0.7	(0.7)
<b>Enterprise Data Asset Management – Phase III</b>			1.2	(1.2)
<b>Expand NAIC Expertise – 2024</b>			0.5	(0.5)
<b>NAIC Education &amp; Training Modernization Project</b>			0.5	(0.5)
<b>IT VISION System Enhancements – 2024</b>	1.6		0.4	(0.4)
<b>Uniform Certificate of Authority Application (UCAA) – Phase II</b>	3.2		0.1	(0.1)
<b>Total Fiscal Impact Statements</b>	<b>10.6</b>		<b>3.4</b>	<b>(3.4)</b>
<b>2024 Operational Budget After Fiscals</b>	22.5	154.0	158.4	(4.4)
<b>Investment Income</b>		3.3		3.3
<b>2024 Budget After Fiscals and Investment Income</b>	<b>\$22.5</b>	<b>\$157.3</b>	<b>\$158.4</b>	<b>(\$1.1)</b>



# 2024 Headcount

2024 Headcount by Department

Division	Current Approved Headcount	Fiscal Requests	Headcount including 2024 Fiscals
CIPR	8.5	2.0	10.5
Communications	10.0		10.0
Executive (includes Finance)	26.0		26.0
Financial and Market Regulatory Services	151.5	4.0	155.5
Government Relations	20.0		20.0
Information Technology Group	229.0	7.0	236.0
Legal	14.0		14.0
Member Services	27.0	2.0	29.0
People Operations\Benefits\Diversity, Equity & Inclusion	16.0		16.0
Technical Services	22.0		22.0
<b>Total Headcount</b>	<b>524.0</b>	<b>15.0</b>	<b>539.0</b>

The 2024 budget requests 15 new headcount to support regulatory and business operations.

Nearly 50% of staff is in information technology and technical support (cybersecurity) functions.

Employees are assigned to the NAIC's three office locations - Kansas City, MO (465), New York, NY (51), and Washington, D.C. (23) – but may have the ability to work remotely depending on their job responsibilities.

# Leaning Into 2025 and Beyond

Continue to invest in key regulatory initiatives and support state-based insurance regulation.

Continue to provide world-class technical and regulatory services to members and the insurance industry.

Continue to implement *State Connected*, which will assist in the prioritization of key initiatives and projects, allowing the NAIC to continue to support the work of insurance regulators.

Continue to focus on controlling costs, managing capital investment, and wisely leveraging the NAIC's financial position.

**NAIC** NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS  
**2024 BUDGET**  
**REVENUE AND EXPENSE SUMMARY**

Description	2023					2024				
	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2023 Projected Variance	2024 Budget	Increase (Decrease) from 2023 Budget	%	Increase (Decrease) from 2023 Projected	%
Operational Revenues	\$134,310,252	\$93,387,248	\$149,373,610	\$144,586,297	\$4,787,313	<b>\$154,003,442</b>	\$9,417,145	6.5%	\$4,629,832	3.1%
Operational Expenses	134,215,745	69,630,471	147,683,373	150,550,313	(2,866,940)	<b>154,983,024</b>	4,432,711	2.9%	7,299,651	4.9%
Operating Revenues Over/(Under) Expenses Before Fiscal Impact Statements	94,507	23,756,777	1,690,237	(5,964,016)	7,654,253	<b>(979,582)</b>	4,984,434		(2,669,819)	
Fiscal Impact Statement Revenues (1)						<b>3,384,927</b>	3,384,927		3,384,927	
Fiscal Impact Statement Expenses (1)										
Fiscal Impact Statement Revenues Over/(Under) Expenses						<b>(3,384,927)</b>	(3,384,927)		(3,384,927)	
Investment Income	(16,812,331)	9,191,123	7,308,181	2,391,500	4,916,681	<b>3,294,000</b>	902,500		(4,014,181)	
Total Revenues After Fiscal Impact Statements	117,497,921	102,578,371	156,681,791	146,977,797	9,703,994	<b>157,297,442</b>	10,319,645	7.0%	615,651	0.4%
Total Expenses After Fiscal Impact Statements	134,215,745	69,630,471	147,683,373	150,550,313	(2,866,940)	<b>158,367,951</b>	7,817,638	5.2%	10,684,578	7.2%
Total Revenues Over/(Under) Expenses	<u>(\$16,717,824)</u>	<u>\$32,947,900</u>	<u>\$8,998,418</u>	<u>(\$3,572,516)</u>	<u>\$12,570,934</u>	<b><u>(\$1,070,509)</u></b>	<u>\$2,502,007</u>		<u>(\$10,068,927)</u>	

(1) See the Fiscal Impact section for details.

**NAIC** NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS  
**2024 BUDGET WITH FISCAL IMPACT STATEMENTS**  
**REVENUE AND EXPENSE BY LINE**

Description	Reference	2023					2024				
		2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2023 Projected Variance	2024 Budget	Increase (Decrease) from 2023 Budget	%	Increase (Decrease) from 2023 Projected	%
Member Assessments	R1	\$2,119,591	\$1,061,692	\$2,125,696	\$2,125,696	\$0	<b>\$2,131,205</b>	\$5,509	0.3%	\$5,509	0.3%
Database Fees	R2	34,396,390	40,952,209	40,953,034	40,153,747	799,287	<b>42,308,824</b>	2,155,077	5.4%	1,355,790	3.3%
Publications and Insurance Data Products	R3	17,340,682	11,304,605	18,162,310	18,056,066	106,244	<b>18,262,175</b>	206,109	1.1%	99,865	0.5%
Valuation Services	R4	31,188,068	11,714,914	32,694,001	30,418,875	2,275,126	<b>33,105,400</b>	2,686,525	8.8%	411,399	1.3%
Transaction Filing Fees	R5	18,106,802	11,689,865	22,003,818	21,724,233	279,585	<b>23,207,726</b>	1,483,493	6.8%	1,203,908	5.5%
National and Major Meetings	R6	2,169,440	928,858	2,925,271	3,061,118	(135,847)	<b>2,977,913</b>	(83,205)	-2.7%	52,642	1.8%
Education and Training	R7	409,025	199,865	428,903	363,893	65,010	<b>398,969</b>	35,076	9.6%	(29,934)	-7.0%
Administrative Services and License Fees	R8	28,355,233	15,345,020	29,666,240	28,478,852	1,187,388	<b>31,352,387</b>	2,873,535	10.1%	1,686,147	5.7%
Other	R9	225,021	190,220	414,337	203,817	210,520	<b>258,843</b>	55,026	27.0%	(155,494)	-37.5%
<b>Total Operating Revenues</b>		<b>134,310,252</b>	<b>93,387,248</b>	<b>149,373,610</b>	<b>144,586,297</b>	<b>4,787,313</b>	<b>154,003,442</b>	<b>9,417,145</b>	<b>6.5%</b>	<b>4,629,832</b>	<b>3.1%</b>
Salaries	E1	60,816,058	32,734,791	66,580,893	66,747,008	(166,115)	<b>72,290,960</b>	5,543,952	8.3%	5,710,067	8.6%
Temporary Personnel	E2	871,904	496,934	968,473	1,134,656	(166,183)	<b>1,220,261</b>	85,605	7.5%	251,788	26.0%
Payroll Taxes	E3	4,443,745	2,858,813	5,010,485	4,969,222	41,263	<b>5,575,913</b>	606,691	12.2%	565,428	11.3%
Employee Benefits	E4	12,054,739	6,949,583	12,930,821	15,854,457	(2,923,636)	<b>13,555,362</b>	(2,299,095)	-14.5%	624,541	4.8%
Employee Development	E5	736,696	353,160	812,884	900,368	(87,484)	<b>963,501</b>	63,133	7.0%	150,617	18.5%
Professional Services	E6	15,730,899	5,961,446	17,011,088	17,439,321	(428,233)	<b>17,279,852</b>	(159,469)	-0.9%	268,764	1.6%
Computer Services	E7	8,209,617	4,224,996	8,621,460	8,672,892	(51,432)	<b>8,926,699</b>	253,807	2.9%	305,239	3.5%
Travel	E8	4,646,709	2,223,607	5,637,241	5,636,996	245	<b>6,196,324</b>	559,328	9.9%	559,083	9.9%
Occupancy and Rental	E9	4,780,467	2,124,066	4,598,097	4,643,793	(45,696)	<b>4,643,975</b>	182	0.0%	45,878	1.0%
Computer Hardware and Software Maintenance	E10	7,722,254	4,130,060	8,816,188	8,222,261	593,927	<b>10,562,067</b>	2,339,806	28.5%	1,745,879	19.8%
Depreciation and Amortization	E11	4,006,303	1,932,338	4,059,038	4,371,487	(312,449)	<b>5,617,094</b>	1,245,607	28.5%	1,558,056	38.4%
Operational	E12	1,653,975	1,111,906	1,926,599	1,609,839	316,760	<b>1,797,706</b>	187,867	11.7%	(128,893)	-6.7%
Library Reference Materials	E13	355,095	200,675	384,214	383,261	953	<b>390,291</b>	7,030	1.8%	6,077	1.6%
National and Major Meetings	E14	4,571,095	2,572,578	6,150,561	5,682,791	467,770	<b>5,350,685</b>	(332,106)	-5.8%	(799,876)	-13.0%
Education and Training	E15	73,844	63,329	343,777	280,739	63,038	<b>250,689</b>	(30,050)	-10.7%	(93,088)	-27.1%
Grant and Zone	E16	2,138,792	703,298	2,666,587	2,784,950	(118,363)	<b>2,445,000</b>	(339,950)	-12.2%	(221,587)	-8.3%
Other	E17	1,403,553	988,891	1,164,967	1,216,272	(51,305)	<b>1,301,572</b>	85,300	7.0%	136,605	11.7%
<b>Total Operating Expenses</b>		<b>134,215,745</b>	<b>69,630,471</b>	<b>147,683,373</b>	<b>150,550,313</b>	<b>(2,866,940)</b>	<b>158,367,951</b>	<b>7,817,638</b>	<b>5.2%</b>	<b>10,684,578</b>	<b>7.2%</b>
Revenues Over/(Under) Expenses before Investment Income		94,507	23,756,777	1,690,237	(5,964,016)	7,654,253	<b>(4,364,509)</b>	1,599,507		(6,054,746)	
Investment Income	II1	(16,812,331)	9,191,123	7,308,181	2,391,500	4,916,681	<b>3,294,000</b>	902,500		(4,014,181)	
Revenues Over/(Under) Expenses		<b>(\$16,717,824)</b>	<b>\$32,947,900</b>	<b>\$8,998,418</b>	<b>(\$3,572,516)</b>	<b>\$12,570,934</b>	<b>(\$1,070,509)</b>	<b>\$2,502,007</b>		<b>(\$10,068,927)</b>	

A detailed analysis of each line item is included in the Revenue Detail, Expense Detail, and Investment Income Detail sections.

BUDGET ITEM: Member Assessments

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

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Member Assessments (1)	\$2,119,591	\$1,061,692	\$2,125,696	\$2,125,696	<b>\$2,131,205</b>	\$5,509	0.3%

(1) In exchange for annual member assessments, the NAIC delivers a wide array of funding, information, products, and services, generally at no charge to insurance regulators, as a benefit of NAIC membership.

The assessment structure is based on each member's share of total insurance premium volume within its jurisdiction. Premium volume is measured as direct written premiums by companies domiciled in each jurisdiction for the calendar year. The budgeted amount is based on four months of the May 2023 - April 2024 assessment and eight months of the May 2024 - April 2025 assessment. The May 2024 - April 2025 member assessments are illustrated in Exhibit R1-One.



## NAIC MEMBER ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$7,339 Minimum \$125,000 Cap 2024/25 Amount	\$7,339 Minimum \$125,000 Cap 2023/24 Amount	\$7,339 Minimum \$125,000 Cap 2022/23 Amount
Alabama	\$36,791,842,783	1.2066%	\$28,020	\$28,020	\$27,838	\$27,417
Alaska	4,906,301,554	0.1609%	3,736	7,339	7,339	7,339
American Samoa	5,721,474	0.0002%	5	7,339	7,339	7,339
Arizona	47,814,388,053	1.5681%	36,415	36,415	35,291	35,059
Arkansas	21,471,998,399	0.7042%	16,353	16,353	16,793	16,208
California	200,217,947,062	6.5662%	152,481	125,000	125,000	125,000
Colorado	53,898,735,012	1.7676%	41,047	41,047	41,988	39,620
Connecticut	43,912,905,913	1.4401%	33,442	33,442	36,632	39,355
Delaware	87,457,198,053	2.8682%	66,606	66,606	78,166	71,477
District Of Columbia	13,820,841,642	0.4533%	10,527	10,527	9,513	9,647
Florida	236,137,119,455	7.7442%	179,837	125,000	125,000	125,000
Georgia	86,522,221,062	2.8375%	65,893	65,893	64,791	66,443
Guam	649,613,281	0.0213%	495	7,339	7,339	7,339
Hawaii	15,991,663,501	0.5245%	12,180	12,180	12,124	12,395
Idaho	13,370,087,093	0.4385%	10,183	10,183	9,817	9,777
Illinois	117,958,808,869	3.8685%	89,835	89,835	91,067	89,127
Indiana	54,629,517,943	1.7916%	41,605	41,605	39,979	40,450
Iowa	45,448,016,355	1.4905%	34,613	34,613	37,616	38,396
Kansas	27,649,195,606	0.9068%	21,058	21,058	21,176	20,882
Kentucky	38,853,744,210	1.2742%	29,590	29,590	29,362	29,430
Louisiana	48,138,419,812	1.5787%	36,661	36,661	36,314	36,485
Maine	10,562,648,864	0.3464%	8,044	8,044	8,047	7,891
Maryland	47,644,340,234	1.5625%	36,285	36,285	36,602	38,047
Massachusetts	72,420,508,987	2.3751%	55,155	55,155	54,230	54,798
Michigan	86,231,412,503	2.8280%	65,672	65,672	66,589	69,168
Minnesota	58,613,168,681	1.9222%	44,638	44,638	43,636	43,063
Mississippi	20,219,073,117	0.6631%	15,399	15,399	15,509	15,564
Missouri	52,586,391,874	1.7246%	40,049	40,049	38,077	38,401
Montana	7,374,995,393	0.2419%	5,617	7,339	7,339	7,339
Nebraska	19,693,406,087	0.6459%	14,999	14,999	15,111	14,253
Nevada	24,717,089,434	0.8106%	18,824	18,824	18,328	17,687
New Hampshire	12,623,696,411	0.4140%	9,614	9,614	9,455	9,580
New Jersey	97,038,053,615	3.1824%	73,902	73,902	72,232	73,264
New Mexico	17,927,156,750	0.5879%	13,652	13,652	13,419	13,947
New York	272,604,884,421	8.9402%	207,610	125,000	125,000	125,000
North Carolina	82,287,646,208	2.6986%	62,667	62,667	57,813	53,099
North Dakota	9,042,733,546	0.2966%	6,888	7,339	7,339	7,339
Northern Mariana Islands	83,511,072	0.0027%	63	7,339	7,339	7,339
Ohio	141,200,703,002	4.6307%	107,535	107,535	99,744	96,851
Oklahoma	25,452,491,323	0.8347%	19,383	19,383	19,296	19,332
Oregon	38,032,477,515	1.2473%	28,965	28,965	28,887	29,286
Pennsylvania	138,467,040,312	4.5411%	105,454	105,454	105,827	108,986
Puerto Rico	19,158,270,163	0.6283%	14,590	14,590	14,535	14,393
Rhode Island	11,219,768,006	0.3680%	8,546	8,546	8,838	8,597
South Carolina	41,437,506,732	1.3590%	31,559	31,559	30,705	30,178
South Dakota	9,556,208,235	0.3134%	7,278	7,339	7,339	7,339
Tennessee	55,881,920,565	1.8327%	42,559	42,559	42,698	43,318
Texas	251,483,174,579	8.2475%	191,524	125,000	125,000	125,000
U.S. Virgin Islands	522,860,116	0.0171%	397	7,339	7,339	7,339
Utah	25,633,632,338	0.8407%	19,523	19,523	18,558	17,160
Vermont	5,054,415,057	0.1658%	3,850	7,339	7,339	7,339
Virginia	71,682,503,855	2.3508%	54,591	54,591	54,114	53,934
Washington	59,667,389,266	1.9568%	45,441	45,441	45,986	44,480
West Virginia	13,606,155,095	0.4462%	10,362	10,362	10,273	10,281
Wisconsin	49,867,312,816	1.6354%	37,977	37,977	37,642	39,957
Wyoming	3,977,113,845	0.1304%	3,028	7,339	7,339	7,339
Total Member Assessments	\$3,049,217,947,149	100.00%	\$2,322,222	\$2,132,803	\$2,128,008	\$2,121,073

Four months of the May 2023-April 2024 assessment  
Eight months of the May 2024-April 2025 assessment

\$709,336  
1,421,869

Total calendar year 2024 assessment

\$2,131,205

# BUDGET ITEM: Database Fees

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

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$34,396,390	\$40,952,209	\$40,953,034	\$40,153,747	<b>\$42,308,824</b>	\$2,155,077	5.4%

- (1) The NAIC uses annual database filing fee revenues to support its financial solvency program, including a number of solvency monitoring tools provided to insurance regulators. Company financial information is generally available to insurance regulators within 24 hours of receipt of the electronic filing. In addition, the insurance industry benefits from the ability to electronically file their quarterly and annual statements with the NAIC's central data collection system rather than submitting separate filings to each jurisdiction in which they conduct business.

Database filing fees are calculated using an insurance company's premiums or reinsurance assumed multiplied by a base factor, subject to a minimum fee and individual and group caps. Calculation of fees in a consistent method equitably funds major investments in important regulatory initiatives, including NAIC systems and technology infrastructure, all of which benefit insurance regulators, consumers, and the insurance industry.

Database filing fees projected for 2023 are based on actual 2022 data year filings received through August 31, 2023. The projected over budget variance reflects the average premium growth within the industry of 7.5% compared to the anticipated average of 2.5%. The 2024 budget maintains the historical filing fee calculation of \$26 per million in premiums but incorporates an increase in premiums over current year filings ranging from 2.5% to 3.9%. Additionally, the year-end 2022 CPI-U of 6.1% has been applied to filing fee caps for 2024, resulting in an individual company cap of \$100,419 and a group cap of \$502,095. The filing fee floor and combined filing fees remain unchanged at \$240 and \$690, respectively.

The group cap limits the impact of filing fees for groups of insurers with aggregate fees that exceed the cap. With the filing of 2022 data during the 2023 calendar year, groups hitting the group filing fee cap of \$473,230 had a reduction in fees of nearly \$9.5 million. The 20 groups with 857 companies hitting the group filing fee cap reported over \$1.2 trillion in premiums. The nearly \$9.5 million group filing fee savings in 2023 represents a 53% reduction in database filing fees for the filing companies and 26.6% reduction in database filing fee revenue for the NAIC.

### BUDGET ITEM: Publications and Insurance Data Products

Item Description: Revenues generated from the sale of various reference materials, handbooks, subscriptions, and information stored within the NAIC's financial database.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Publications (1)	\$1,591,748	\$814,215	\$1,581,070	\$1,741,509	<b>\$1,536,517</b>	(\$204,992)	-11.8%
Insurance Data Products (2)	11,164,784	8,909,960	11,733,280	11,514,062	<b>11,591,628</b>	77,566	0.7%
Filing Support Product Platform (3)	4,584,150	1,580,430	4,847,960	4,800,495	<b>5,134,030</b>	333,535	6.9%
Total	<u>\$17,340,682</u>	<u>\$11,304,605</u>	<u>\$18,162,310</u>	<u>\$18,056,066</u>	<u><b>\$18,262,175</b></u>	<u>\$206,109</u>	1.1%

- (1) Publications revenue is generated from the sale of digital publications as well as royalties from the sale of these products by third-party vendors. The NAIC produces approximately 150 publications, which are designed to (1) provide insurance regulators with handbooks, statistical reports, and white papers in an effort to offer best practices and coordinated regulatory approaches to insurance regulation and (2) provide the insurance industry with a variety of handbooks, tools, and electronic applications to facilitate industry compliance with insurance regulatory requirements. Projections for 2023 and the 2024 budget reflect a continued decline in the sale of NAIC digital products, partially offset by minimum price increases for certain products.
- (2) Revenues generated from the sale of insurance data products include (1) contracts with third-party vendors who use, market, and sometimes redistribute NAIC data (\$10.7 million) and (2) direct sales to customers (\$882,000). This data is leveraged to conduct research and benchmark specific company data and performance to various industry aggregates, among other activities. The budgeted increase in revenue in 2024 is related to minor (5% or less) price increases for contractual and direct sales agreements. The price for downloads remains unchanged.
- (3) Several business partners leverage the NAIC Filing Support Product (FSP) in order to ensure accurate submissions of quarterly and annual filings to the NAIC. Licensed services include (1) Annual Statement Filing Support Product (ASFSP); (2) Risk-Based Capital Filing Support Product (RBCFSP); (3) Annual Statement Instructions; and (4) Risk-Based Capital Forecasting. The increase in royalties is related to contractual price increases designed to recover increased costs of maintaining this platform.

# BUDGET ITEM: Valuation Services

Item Description: Fees related to the designation of securities, including the Securities Valuation Office (SVO), Capital Markets Bureau (CMB), and Structured Securities Group (SSG). This category also includes revenues generated by the NAIC's Automated Valuation Service (AVS+).

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Capital Markets and Investment Analysis Fees (1)	\$11,400,100	\$6,470,125	\$13,097,175	\$12,021,450	<b>\$12,763,500</b>	\$742,050	6.2%
Structured Securities (2)	12,434,699	1,603,626	12,349,400	11,167,500	<b>12,165,000</b>	997,500	8.9%
Automated Valuation Service (3)	7,353,269	3,641,163	7,247,426	7,229,925	<b>8,176,900</b>	946,975	13.1%
Total	<u>\$31,188,068</u>	<u>\$11,714,914</u>	<u>\$32,694,001</u>	<u>\$30,418,875</u>	<u><b>\$33,105,400</b></u>	<u>\$2,686,525</u>	8.8%

- (1) The NAIC's Capital Markets and Investment Analysis business units provide regulators with investment security valuations, capital markets analysis, research, and evaluations of components of insurer investment portfolio risks. Revenues generated from Capital Markets and Investment Analysis fees in 2023 are projected to exceed budget due to a higher volume of advanced rating requests. The 2024 budget anticipates volumes to remain relatively consistent with 2023 budget and includes price adjustments ranging from \$25 to \$1,100 for certain designations. The SVO pricing adjustments represent a continued effort to keep fees aligned with the effort expended to perform ratings analysis and the increasing cost of doing business.

Capital Markets and Investment Analysis revenues include (1) \$9.7 million for securities designated by the SVO (as illustrated in Exhibit R4-One); (2) \$548,025 for the processing of subsidiary valuation filings; (3) \$505,400 for advanced rating services; (4) \$143,900 in services provided to banks and financial institutions that wish to be placed on the NAIC List of Qualified U.S. Financial Institutions; (5) \$125,200 in service fees for the review of money market funds; (6) \$351,325 in service fees for the review of exchange traded funds; (7) \$47,075 in service fees for the review of working capital financial investments; (8) \$27,650 in SVO sovereign fees, representing an offset to the cost of the SVO's requirement to conduct a sovereign analysis on the initial submission of issuing debt in a foreign country; (9) \$53,675 in service fees for the review of counterparty derivatives; (10) \$959,100 in private letter ruling fees; (11) \$233,600 for the right for redistributors to use SVO exchange traded fund designations; and (12) \$19,350 in appeals fees.

- (2) Structured Securities revenues are generated from the sale of modeled residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by insurance companies at the end of each year, as well as advanced rating services for structured securities. Revenue is based on per-security sales to insurers based on their year-end holdings and the sale of RMBS, CMBS, or complete RMBS/CMBS datasets to third parties. The 2023 projection is based on the number of securities rated and advanced ratings provided in the prior year. The 2024 budget includes a \$5 increase in the price per CUSIP to \$80 for RMBS and \$110 for CMBS.

- (3) The Automated Valuation Service (AVS+) is the NAIC's electronic system for the delivery of security designations assigned by the SVO. The AVS+ system is utilized by companies when preparing their Schedule D filings. Fees are based on the value of assets held in a company's portfolio. The increase in 2024 budget incorporates a 12% increase, the first in three years.

Product Description	2023 Filing Fee	2024 Filing Fee	2024 Budgeted Volumes	2024 Budgeted Revenue
<b>Corporates</b>				
Regulatory Transactions - Initial	\$5,000	\$5,300	10	\$53,000
Regulatory Transactions - Annual	\$10,000	\$10,000	2	20,000
Regulatory Transactions - Annual Update (Additional Issue)	\$0	\$500	10	5,000
Corporate Initial Rated	\$400	\$425	4	1,700
Corporate A/U Rated	\$375	\$425	30	12,750
Corporate Initial Issuer Not in VOS	\$5,000	\$5,300	210	1,113,000
Corporate Initial Issuer Not in VOS Foreign	\$6,000	\$6,375	53	337,875
Corporate Annual/Initial Reinstatement	\$5,000	\$5,300	1	5,300
Corporate A/U Not Rated	\$1,800	\$1,925	749	1,441,825
Corporate A/U Not Rated Foreign	\$2,000	\$2,125	301	639,625
Corporate Initial Not Rated	\$1,800	\$1,925	169	325,325
Corporate Initial Not Rated Foreign	\$2,000	\$2,125	31	65,875
Corporate Initial Expired Info Request	\$375	\$425	37	15,725
Corporate Annual Expired Info Request	\$375	\$425	17	7,225
Corporate Rejected Filing	\$375	\$425	207	87,975
Corporate Non-Billable Filing	\$0	\$0	57	0
Corporate A/U Issuer CRP Rated	\$625	\$650	556	361,400
Corporate A/U Issuer Rated Add Issue	\$375	\$425	3,301	1,402,925
Corporate Initial Issuer CRP Rated	\$1,800	\$1,925	188	361,900
Corporate Initial Issuer Rated Add Issue	\$1,800	\$1,925	325	625,625
Corporate Material Change	\$500	\$1,600	3	4,800
Corporate Renumbering Request	\$0	\$0	39	0
Corp Initial Complex Credit Not in VOS	\$7,500	\$8,000	4	32,000
Schedule BA Initial Not in VOS	\$5,000	\$5,300	1	5,300
Schedule BA Annual Rated	\$375	\$425	6	2,550
Schedule BA Annual VOS Not Rated	\$1,800	\$1,925	16	30,800
Schedule BA A/U Issuer CRP Rated	\$625	\$650	1	650
Schedule BA A/U Issuer Rated Add Issue	\$375	\$425	3	1,275
Schedule BA Rejected Filings	\$375	\$425	1	425
<b>Total Corporates</b>				<b>6,961,850</b>
<b>Municipals</b>				
Municipal Initial Rated	\$400	\$425	1	425
Municipal A/U Rated	\$375	\$425	1	425
Municipal Initial Issuer Not in VOS	\$5,000	\$5,300	5	26,500
Municipal A/R VOS Not Rated	\$1,800	\$1,925	43	82,775
Municipal Initial Not Rated	\$1,800	\$1,925	2	3,850
Municipal Initial Expired Info Request	\$375	\$425	8	3,400
Municipal A/R Issuer CRP Rated	\$625	\$650	22	14,300
Municipal Initial Issuer CRP Rated	\$1,800	\$1,925	8	15,400
Municipal Initial Issuer Rated Add Issue	\$1,800	\$1,925	13	25,025
Municipal Annual Lottery Add Issue	\$375	\$425	22	9,350
Municipal Initial Lottery	\$1,400	\$1,475	1	1,475
Municipal Annual Lottery	\$750	\$775	20	15,500
Municipal Initial Pre-Refunded	\$1,400	\$1,475	42	61,950
Municipal A/R Issuer Rated Add Issue	\$375	\$425	41	17,425
Municipal Rejected Filing	\$375	\$425	17	7,225
Muni Non-Billable Filing	\$0	\$0	1	0
Muni Additional Issue Pre-Refunded	\$375	\$425	32	13,600
<b>Total Municipals</b>				<b>298,625</b>

Product Description	2023 Filing Fee	2024 Filing Fee	2024 Budgeted Volumes	2024 Budgeted Revenue
<b>Structured</b>				
Structured CTL Annual Rated	\$375	\$425	1,000	425,000
Structured CTL Annual Not Rated	\$1,800	\$1,925	17	32,725
Structured Initial Rated	\$375	\$425	1	425
Structured A/U Rated	\$375	\$425	92	39,100
Structured Replication A/U	\$375	\$425	681	289,425
Structured CTL Additional Notes	\$400	\$425	1	425
Military Housing Bonds Annual	\$1,800	\$1,925	19	36,575
Structured Initial Filing NtRat NtVOS	\$1,850	\$1,925	1	1,925
Structured Initial Expired Info Request	\$375	\$425	1	425
Structured CTL Bond Initial	\$1,800	\$1,925	29	55,825
Structured CTL Lease Initial	\$2,575	\$2,650	55	145,750
Structured GLF Initial Not Rated	\$7,500	\$8,000	1	8,000
Structured GLF Annual Not Rated	\$0	\$3,650	1	3,650
Structured A/U Not Rated	\$1,800	\$1,925	106	204,050
Structured Replication Initial	\$1,800	\$1,925	430	827,750
Structured Replication Collateral	\$375	\$425	55	23,375
Structured Annual Structured Settlement	\$600	\$650	68	44,200
Structured Rejected Filing	\$375	\$425	20	8,500
Structured Material Change	\$525	\$1,600	1	1,600
Structured Renumbering Request	\$0	\$0	2	0
Structured Annual Structured Settlement Add Issue	\$375	\$425	800	340,000
<b>Total Structured</b>				<b>2,488,725</b>
<b>Total Securities</b>				<b>\$9,749,200</b>

# BUDGET ITEM: Transaction Filing Fees

Item Description: Transaction filing fees are generated to assist departments of insurance with regulatory filings, including System for Electronic Rates and Forms Filing (SERFF), Online Premium Tax for Insurance (OPT<sup>ins</sup>), State Based Systems (SBS), Experience Data Fees, and the International Insurers Department (IID).

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
SERFF Fees (1)	\$8,513,050	\$5,719,332	\$10,900,537	\$10,759,312	<b>\$11,612,039</b>	\$852,727	7.9%
SERFF Data Hosting	1,695,642	851,348	1,702,696	1,716,652	<b>1,736,750</b>	20,098	1.2%
OPT <sup>ins</sup> Fees (2)	2,049,123	1,359,550	2,018,195	2,032,299	<b>2,046,045</b>	13,746	0.7%
SBS Fees (3)	4,870,503	2,845,893	5,407,068	5,248,168	<b>5,680,250</b>	432,082	8.2%
Experience Data Fees (4)			1,010,000	1,000,000	<b>1,010,000</b>	10,000	1.0%
IID Fees (5)	978,484	913,742	965,322	967,802	<b>1,122,642</b>	154,840	16.0%
Total	<b>\$18,106,802</b>	<b>\$11,689,865</b>	<b>\$22,003,818</b>	<b>\$21,724,233</b>	<b>\$23,207,726</b>	<b>\$1,483,493</b>	6.8%

- (1) SERFF is licensed and used by 53 jurisdictions and over 5,000 insurance companies, third-party filers, rating organizations, and other companies. SERFF represents a key NAIC product in the modernization and efficiency of the state-based insurance regulatory system. Most jurisdictions receive more than 90% of their filings in an electronic format via SERFF, allowing faster turnarounds, more consistent reviews, and better reporting. Companies experience significant cost savings and efficiency through the electronic submission of product filings for multiple jurisdictions, saving personnel and mailing costs by streamlining the submission process. The 2024 budget is based on the volume of transactions projected in 2023 and includes a \$1.07 price increase based on 6.1% CPI-U adjustment.

Also included in the SERFF revenue line is \$1.1 million for Integration Expansion license fees and a \$25,000 annual license fee from the Interstate Insurance Product Regulation Commission (Insurance Compact). Under the NAIC/Insurance Compact license and services agreement, the Insurance Compact pays a license fee to receive general support of the SERFF system and up to 250 development hours each year to make modifications to SERFF in order to accommodate Insurance Compact filings and the overall expansion/enhancements of Insurance Compact product filing operations. Integration Expansion license fees are budgeted to increase based on an increase in the number of companies licensed and a 3% annual increase in fees.

- (2) The NAIC's online premium tax submission and payment system (OPT<sup>ins</sup>) automates and simplifies premium tax and surplus lines tax return submissions by filing companies, brokers, and individuals and the receipt of filings and collection of premium taxes, in exchange for a transaction fee of \$15 or less. OPT<sup>ins</sup>, with 29 participating jurisdictions, represents another NAIC initiative to modernize and improve the efficiency of the state-based insurance regulatory system. Companies experience cost savings and efficiency through electronic submission of premium tax and surplus lines returns and electronic payment of quarterly and annual premium taxes. The minimum fee for an OPT<sup>ins</sup> transaction is \$2.50, with an average of \$5.00 per transaction.
- (3) SBS provides a comprehensive web-based application for use by regulators in support of all state-based insurance regulatory functions. SBS is currently in service in 34 jurisdictions, with one in process of implementation. SBS enables insurance regulators to more efficiently and effectively process license applications, license renewals, consumer inquiries, consumer complaints, and enforcement actions, among other regulatory applications, and remain compliant with national insurance regulation uniformity initiatives. Through SBS, both regulated entities and insurance regulators experience significant cost savings and efficiency by automation of the insurance regulatory processes and transactions. The value of SBS services to the industry is significant in terms of cost savings to insurers, producers, and providers in managing the cost of compliance, and far exceeds the insignificant processing fees charged by the NAIC in facilitating electronic transactions. Further, SBS generates voluntary transaction fees from users who leverage the SBS system to complete regulatory transactions, which further illustrates the benefit of value-added services to insurance regulators and the insurance industry. The increase in revenue in 2023 is the result of jurisdictions implemented in 2023 producing more revenue than expected. The 2024 budget for continuing education revenue includes \$200,000 in additional revenue from existing jurisdictions and \$328,700 in additional revenue from three jurisdictions planned for implementation in 2024. These increases are partially offset by a decrease in the number of expected transactions in other SBS products and services.



BUDGET ITEM: Transaction Filing Fees (continued)

- (4) The NAIC charges a fee of \$10,000 to certain companies filing life insurance mortality experience data under VM-50, Experience Reporting Requirements and VM-51, Experience Reporting Formats of the *Valuation Manual*. This data collection process involves a significant time commitment from NAIC actuarial and other resources. This fee is designed to recoup a portion of those costs.
- (5) IID revenues are generated from processing initial applications and annual update financial filings from companies listed in the Quarterly Listing of Alien Insurers. Companies benefit from this listing in their ability to conduct business in jurisdictions relying on the IID and Quarterly Listing of Alien Insurers. The 2024 budget is based on 172 filings from companies and Lloyd's Syndicates, six new applications, and two late fees. The IID expects to receive fewer applications in 2024 than in the previous year. The 2024 budget includes a \$779 increase in the filing fee, to \$5,841 and a \$1,558 increase in the application fee, to \$11,682. Fees were last increased in 2021.

BUDGET ITEM: National and Major Meetings

Item Description: Fees received from attendees at NAIC National Meetings, Insurance Summit, and International Insurance Forum. In 2023, the NAIC sponsored the International Association of Insurance Supervisors (IAIS) Global Seminar.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
National Meeting Registration Fees (1)	\$1,954,920	\$770,314	\$2,549,227	\$2,579,593	<b>\$2,689,017</b>	\$109,424	4.2%
Insurance Summit (2)	155,270	24,232	241,732	285,725	<b>246,896</b>	(38,829)	-13.6%
International Insurance Forum (3)	59,250	40,250	40,250	71,000	<b>42,000</b>	(29,000)	-40.9%
IAIS Global Seminar (4)		94,062	94,062	124,800		(124,800)	-100.0%
	<u>\$2,169,440</u>	<u>\$928,858</u>	<u>\$2,925,271</u>	<u>\$3,061,118</u>	<u><b>\$2,977,913</b></u>	<u>(\$83,205)</u>	<u>-2.7%</u>

- (1) National meeting registration fees are projected based on Exhibit R6-One, and are charged on a multi-tier basis such that early registrations receive a discount and certain incentives are offered to first-time, local attendees. The under budget variance in 2023 is the result of lower than anticipated registration for the Spring National Meeting. Paid registrations have been slow to return to pre-pandemic levels. The 2024 budget includes a \$50 increase in the advance registration, registration after 30 days prior, and virtual only registration fees. These increases are necessary to cover the increase in costs related to the production of a national meeting without reducing the services provided. The number of registrations budgeted for 2024 national meetings vary based on location.
- (2) Revenue from the NAIC Insurance Summit is generated by registration fees for participants and sponsorship fees for exhibitors. Registrations and sponsorships for this event are slow to recover following the pandemic. The 2024 budget includes a \$50 increase in the registration fee. This increase is necessary to cover the increase in costs related to the production of the summit without reducing the services provided.
- (3) Registrations for the 2023 event were capped at 150 due to space restrictions at the host hotel. The 2024 event will be held at the same location requiring the same restriction on the number of attendees.
- (4) In 2023, the NAIC hosted the IAIS Global Seminar in Seattle. Members of the IAIS voluntarily host events in support of the organization. The last event hosted by the NAIC was the IAIS 2012 Annual Conference. Related expenses appear throughout NAIC expense categories, with \$601,400 of the total \$669,100 budget is reflected in Commissioner Travel (see Footnote E8a) and National and Major Events (see Footnote E14). Registrations for the 2023 event fell short of budget.

### National Meeting Registrations

	Fee	Phoenix		Chicago		Denver		Total	
		Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
Advance Registration	\$875	704	\$616,000	777	\$679,875	808	\$707,000	2,289	\$2,002,875
Registration after 30 Days Prior	\$975	98	95,550	105	102,375	113	110,175	316	308,100
Virtual Only Registration	\$875	127	111,125	137	119,875	146	127,750	410	358,750
First Time, Local Registrants	\$488	24	11,712	31	15,128	33	16,104	88	42,944
Subtotal		953	834,387	1,050	917,253	1,100	961,029	3,103	2,712,669
Cancellation Refunds (in person and virtual)	\$438	16	7,008	19	8,322	19	8,322	54	23,652
Total Projected Paid Attendance and Revenues		937	\$827,379	1,031	\$908,931	1,081	\$952,707	3,049	\$2,689,017
Total Projected Registrations (Paid and Unpaid)		2,307		2,500		2,675		7,482	

2024 attendance projections were determined by taking into consideration location and past attendance.

<b><u>Paid Attendance Statistics:</u></b>	<b><u>Spring</u></b>	<b><u>Summer</u></b>	<b><u>Fall</u></b>
2023	883 Louisville	910 Seattle	Orlando
2022	816 Kansas City	822 Portland	1,039 Tampa
2021	509 Virtual	528 Columbus	766 San Diego
2020	Cancelled Phoenix	807 Virtual	644 Virtual
2019	1,016 Orlando	1,071 New York	1,127 Austin
2018	985 Milwaukee	1,003 Boston	1,038 San Francisco
2017	1,001 Denver	1,100 Philadelphia	507 Honolulu

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education and training programs.

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Education and Training (1)	\$409,025	\$199,865	\$428,903	\$363,893	<b>\$398,969</b>	\$35,076	9.6%

(1) The purpose of the Education and Training function is to manage the NAIC's regulatory curriculum. The core focus is to identify and seize opportunities to develop just-in-time, on-demand, and/or self-study training and development of products, while assuring the integrity and comprehensiveness of the curriculum as a whole. In the examination of education opportunities, the goal is to achieve a balance between meeting the regulatory training needs of department of insurance employees and assisting industry clients through a broader range of compliance training topics. The NAIC educational curriculum is offered to department of insurance employees and consumer advocates at no charge. Educational programs are short courses with highly targeted curriculum. The 2023 projection reflects a significant increase in the number of registrants in the NAIC Designation Program and SERFF Training. The increase in registrations experienced in 2023 is expected to continue, partially offset by the removal of Risk Based Capital Updates, a biennial offering from the 2024 course roster.

**BUDGET ITEM: Administrative Services and License Fees**

Item Description: Revenues received from license and services agreements with the National Insurance Producer Registry (NIPR) and Interstate Insurance Product Regulation Commission (Insurance Compact).

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
License Fees (1)	\$25,549,116	\$13,767,517	\$26,760,379	\$25,795,583	<b>\$28,321,250</b>	\$2,525,667	9.8%
Administrative Service Fees (2)	2,806,117	1,577,503	2,905,861	2,683,269	<b>3,031,137</b>	347,868	13.0%
Total	<u>\$28,355,233</u>	<u>\$15,345,020</u>	<u>\$29,666,240</u>	<u>\$28,478,852</u>	<u><b>\$31,352,387</b></u>	<u>\$2,873,535</u>	10.1%

Administrative services and license fees are derived from agreements between the NAIC and NIPR and the NAIC and the Insurance Compact. The license and services agreement between NAIC and NIPR includes license fees and administrative services fees and began on January 1, 2023, for a five-year period. The license and services agreement between the NAIC and the Insurance Compact began June 1, 2007, and expired December 31, 2011. This agreement continues to be renewed for one-year periods, with the most current expiring on December 31, 2023.

- (1) Pursuant to the 2023 license and services agreement, the NAIC receives 38% of certain NIPR revenues, which represents a license for NIPR to use NAIC's producer data. The 2023 projection and 2024 budget, as provided by NIPR, are based on strong sales of credentialing and reporting products. The 2024 budget assumes a continued increase in activity.

The value of NAIC/NIPR services to industry is significant. By licensing the NAIC's Producer Licensing Database, NIPR is able to deliver a national, aggregated database of producer information. Insurance companies are able to leverage NIPR as a centralized, one-stop shop to perform research of all licensed producer records, which is critical in saving them time and money in ensuring the appropriate licensing and appointment of producers selling business on their behalf, and critical to the companies' compliance with jurisdictional insurance laws.

Without the centralized database, this research would have to occur on an insurance department-by-insurance department basis, significantly increasing the amount of time and cost of compliance. The NAIC believes this illustrates tremendous value and cost savings to insurers managing the cost of compliance. Further, NIPR's products and services have been embedded into the automated workflow processes of many insurance carriers. NIPR is now the data source for companies to synchronize their producer data systems, which automates data entry and gets the carrier closer to producer real-time expectations. Use of the data supports compliance management and eliminates costly errors.

Specific to the individual producer licensing transactions offered by NIPR, a non-resident producer wishing to obtain or renew a license in a large number of non-resident jurisdictions is able to leverage NIPR's non-resident licensing or non-resident renewal applications to submit one electronic, uniform application for each of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands, and receive the approval or declination of the application generally within 48 hours. NIPR also provides electronic processing for users to obtain or renew resident licenses and adjuster licenses for most jurisdictions. Absent NIPR's web-based option, the licensee would be required to submit paper applications by mail to each jurisdiction. Value propositions include (1) lower cost to the producer and the insurance industry to submit the uniform application through NIPR's system compared to the cost of (i) printed mailings and (ii) the potential cost of manually preparing multiple required forms in cases where the uniform application is not accepted and (2) reduced administrative cost to the producer and the insurance industry in monitoring the status of paper applications versus receiving an electronic notification of the status.

The current license and services agreement with the Insurance Compact calls for an adjustable administrative fee of 7.5% of revenues in excess of expenses, measured in \$25,000 increments. The 2023 projection for this fee is \$20,625 and the 2024 budget is \$11,250, based on earnings projections provided by the Insurance Compact.

- (2) Administrative services fees includes the actual cost of services provided to NIPR and a flat fee of \$125,000 for services provided to the Insurance Compact. These services include administrative support services, facilities, and equipment provided by the NAIC. The 2023 projection includes increased software and cloud run costs that will continue into 2024.

BUDGET ITEM: Other

Item Description: Revenues received from business operations not otherwise classified.

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Other (1)	\$225,021	\$190,220	\$414,337	\$203,817	<b>\$258,843</b>	\$55,026	27.0%

(1) The 2024 budget includes (1) \$15,000 for a service level agreement with the New York Department of Financial Services to accept supplemental filings to the Annual Statement submitted to the department by New York licensed insurers through the NAIC's internet filing application; (2) \$6,000 for rebates related to the use of purchasing cards; (3) \$85,000 for administrative fees for coordinating examination software renewals; and (4) \$128,000 in fees related to research grants. The 2023 projection includes an earnings tax rebate that is not expected to recur in 2024 and revenue related to research grants, neither of which were anticipated in the 2023 budget.

BUDGET ITEM: Salaries

Item Description: Includes salary, vacation liability, a turnover factor, a budget for promotions and adjustments, and overtime for all NAIC employees.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Salaries-Existing Employees (1)	\$60,692,624	\$32,670,468	\$66,462,589	\$66,665,320	<b>\$70,760,065</b>	\$4,094,745	6.1%
Salaries-New Employees (2)					<b>1,425,494</b>	1,425,494	100.0%
Overtime (3)	123,434	64,323	118,304	81,688	<b>105,401</b>	23,713	29.0%
Total	<u>\$60,816,058</u>	<u>\$32,734,791</u>	<u>\$66,580,893</u>	<u>\$66,747,008</u>	<u><b>\$72,290,960</b></u>	<u>\$5,543,952</u>	8.3%

- (1) The salary line includes amounts paid to employees such as wages, promotions, adjustments, accrued paid time off (PTO), and turnover. Overtime is budgeted separately in order to provide additional management of that expense line as it is not managed under the NAIC's salary increase process. As of October 7, 2023, the NAIC had 524 approved full-time equivalent (FTE) positions. The under budget variance in 2023 is related to extended searches to fill highly skilled, higher compensated positions. The 2024 budget includes an increase in the salary budget for the conversion of positions added in mid-2023 to a full year.

The 2024 budget also includes annual increases for all NAIC staff. The NAIC uses local and national salary surveys such as the William Mercer Compensation Planning Survey, the Hay Group Survey, the World at Work Salary Budget Survey, and CBIZ when assessing potential increases for the coming year. Included in this assessment is NAIC's ability to attract and retain qualified staff members in its highly competitive technical and professional environment while being mindful of regulatory budget challenges. The majority of the NAIC's staff are in the tight Kansas City labor market, making it difficult to attract and retain talented resources in highly specialized fields due to increased competition. As a result of the recent drop in the labor force, there are currently two jobs open for every unemployed person. Fewer participants in the labor market has generated higher competition for talent and accelerated wage growth. This higher competition and the specialized nature of many of the NAIC positions creates increased pressure in the labor market to attract and retain qualified staff members.

- (2) The 2024 budget includes requests for 15 full-time employees to support regulatory, technical, and product areas. Additional details regarding these resource additions are included in Fiscal 1-SERFF Modernization - 2024 Transition Stages; Fiscal 2-Enterprise Data Asset Management - Phase III; Fiscal 3-Expand NAIC Expertise - 2024; Fiscal 4-NAIC Education & Training Modernization Project; Fiscal 5-IT VISION System Enhancements - 2024; and Fiscal 6-Uniform Certificate Authority Application (UCAA) - Phase II.
- (3) The overtime budget reflects the amount of overtime required to support NAIC functions during the year. Examples include (1) additional hours worked by technical staff to support a hybrid work environment; (2) additional hours worked by desktop computer technicians during software rollouts and outages; (3) travel time and additional hours for administrative staff who support national meetings and other NAIC events; (4) additional hours worked by service desk staff to address customer needs; and (5) additional hours worked by staff to support internal business operations. The increase in 2024 is related to an increase in the number of administrative staff who support national meetings and additional hours worked by service desk staff.



BUDGET ITEM: Temporary Personnel

Item Description: Fees paid to outside agencies and wages paid to interns and temporary employees for additional resources during peak work periods and for special projects.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
National Meetings and Major Meetings (1)	\$83,875	\$25,006	\$96,811	\$93,149	<b>\$105,802</b>	\$12,653	13.6%
Interns (2)	357,952	155,895	371,678	450,000	<b>475,250</b>	25,250	5.6%
Other (3)	430,077	316,033	499,984	591,507	<b>639,209</b>	47,702	8.1%
Total	<u>\$871,904</u>	<u>\$496,934</u>	<u>\$968,473</u>	<u>\$1,134,656</u>	<u><b>\$1,220,261</b></u>	<u>\$85,605</u>	7.5%

- (1) Temporary resources for national meetings and the Insurance Summit are used for security and door monitoring purposes. Hotel configurations and meeting schedules dictate the amount of temporary services required at each national meeting and the Insurance Summit. The 2024 budget is based on rates for national meeting locations and relate primarily to the configurations at the NAIC Summer and Fall National Meetings.
- (2) The NAIC internship program is designed to provide needed resources in various high-priority areas. Some of the projects slated for intern assignment include systems testing; product support; support for the NAIC's digital library collection; statistical and legal research; member services support; and education course production support. The use of interns allows the NAIC to find and attract temporary resources in a competitive marketplace. Additionally, this program is very successful with respect to identifying and retaining qualified candidates for full-time positions. Projections for the current year reflect the difficulty NAIC is having in finding individuals interested in short-term employment. The increase in 2024 reflects the need to secure additional resources for short periods of time.
- (3) Other temporary personnel are budgeted to provide additional resources during periods of increased demand or unusual vacancies and resources in specialized areas of concentrated effort that will be for a short period of time, such as data conversions. The majority of resources budgeted in this area includes post-doctorial resources in the Center for Insurance Policy & Research (CIPR); recruiting resources to seek out and retain the unique skill sets needed by the NAIC; assistance with employee benefit related functions; and assistance with data loads related to the SERFF Modernization Project. The need for these highly skilled individuals will increase in 2024.

BUDGET ITEM: Payroll Taxes

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

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
FICA (1)	\$4,390,226	\$2,840,870	\$4,942,893	\$4,900,363	<b>\$5,502,684</b>	\$602,321	12.3%
Unemployment Compensation (2)	53,519	17,943	67,592	68,859	<b>73,229</b>	4,370	6.3%
Total	<u>\$4,443,745</u>	<u>\$2,858,813</u>	<u>\$5,010,485</u>	<u>\$4,969,222</u>	<u><b>\$5,575,913</b></u>	<u>\$606,691</u>	12.2%

(1) The increase in budgeted FICA for 2024 is related to the annual expected increase in the salary limit subject to FICA and the addition of staffing resources as described in the salary section of this budget (see Footnote E1).

(2) The 2024 budget incorporates an increase in the number of staff as described in the salary section of this budget (see Footnote E1).

# BUDGET ITEM: Employee Benefits

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

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Retirement Benefits (1)	\$4,895,693	\$3,090,732	\$5,634,732	\$8,742,999	<b>\$5,268,197</b>	(\$3,474,802)	-39.7%
Health Benefits (2)	5,930,634	3,024,312	5,955,072	5,817,701	<b>6,884,459</b>	1,066,758	18.3%
Group Life and Disability (3)	313,371	184,684	349,684	341,907	<b>359,976</b>	18,069	5.3%
Employee Relations (4)	915,039	649,855	991,333	951,850	<b>1,042,730</b>	90,880	9.5%
Total	<u>\$12,054,737</u>	<u>\$6,949,583</u>	<u>\$12,930,821</u>	<u>\$15,854,457</u>	<u><b>\$13,555,362</b></u>	<u>(\$2,299,095)</u>	-14.5%

(1) Retirement benefits include the defined contribution plan (DCP) to which the NAIC makes a 3% discretionary contribution of each employee's annual salary and matches an employee's contribution up to 5.5%, for an estimated \$5.3 million in 2024. This expense is budgeted to increase \$158,000 from projected 2023 expenses and \$625,000 from the 2023 budget based on (1) current staff contribution rates, (2) increased salary base in 2024, and (3) continued absorption of the change in vesting to eliminate the one-year waiting period and reduce the vesting period from five to three years.

Also included in this line is the NAIC's defined benefit plan (DBP). The Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years beginning with the December 31, 2017, measurement date. This approach has resulted in the full recognition of unfunded actuarial accrued liabilities under this plan and estimated cost of \$525,000 for this plan in 2023 and \$0 in 2024. The 2023 budget for this plan was \$4.1 million based on actuarial valuations as of the date of preparation of that budget.

(2) Health benefits under the NAIC's self-insured plan are based on the number of employees enrolled and their benefit selections. As with any self-insured plan, actual costs vary annually based on employee claims. Projected expense for 2023 is based on actual claims through mid-2023 and prior year experiences. The 2024 budget for health insurance (1) reflects recent claims experience; (2) includes an increase in the cost of prescription drug coverage; (3) an increase in the cost of stop loss coverage; and (4) health coverage for the additional staff as described in the salary section of this budget (see Footnote E1). The NAIC currently has several programs in place to assist in reducing the number and severity of health care claims. Examples of these programs are employee health awareness programs, Wellness Days, and Corporate Challenge participation.

(3) The renewal rate for Group Life and Disability coverage during 2023 was slightly higher than expected. The 2024 budget includes this increase and the addition of staffing resources as described in the salary section of this budget (see Footnote E1).

(4) Employee relations includes (1) service awards; (2) performance recognition programs; (3) incidental employee functions such as Employee Appreciation Day, Wellness Days, and Corporate Challenge participation; (4) student loan assistance program; and (5) annual holiday luncheons for each of the three NAIC offices. Management continues to have confidence in the benefit of these programs in creating a positive work environment and the success of these events. These events serve as a conduit for employee engagement and comradery which are of vital importance in today's remote work environment. Increased spending in 2023 and 2024 is related to rising cost of employee events due to the increase in the number of staff and the rising cost to produce these events.

BUDGET ITEM: Employee Development

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

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$37,889	\$29,664	\$62,939	\$69,813	<b>\$65,270</b>	(\$4,543)	-6.5%
Professional Training (2)	601,688	244,727	641,441	727,940	<b>794,478</b>	66,538	9.1%
Professional Association Dues (3)	97,119	78,769	108,504	102,615	<b>103,753</b>	1,138	1.1%
Total	<u>\$736,696</u>	<u>\$353,160</u>	<u>\$812,884</u>	<u>\$900,368</u>	<u><b>\$963,501</b></u>	<u>\$63,133</u>	7.0%

- (1) Education reimbursements carry an annual cap per employee, are only available to those employees who are actively pursuing college degrees or professional designations, and only apply toward tuition for courses that specifically relate to and enhance the employee's job knowledge and/or skills for the benefit of the NAIC. The NAIC is committed to the development of employee skills to further the work of insurance regulation and the NAIC. Expenses vary from year to year based on employee enrollment in qualifying courses and programs.
- (2) Professional training represents registration fees for professional seminars, trade workshops, and education programs attended by NAIC employees who require specialized training or are required to receive continuing education to maintain professional licenses or designations. This category also includes NAIC All Staff Training Event expenses on topics such as cybersecurity, management, and leadership. The under budget spending in 2023 is due to less training necessary during the implementation of Workday, the new enterprise resource planning (ERP) software. Training during implementation provided much of the training necessary for subject matter experts. The budgeted increase in this line for 2024 represents biennial certifications needed for Diversity, Equity, and Inclusion (DE&I) Council members and training requirements as detailed in Fiscal 4-NAIC Education & Training Modernization Project.
- (3) The budget includes employee memberships in various professional associations, such as the American Society of Association Executives, American Bar Association, local and state bar associations, the American Institute of Certified Public Accountants, and state CPA associations, among others.

BUDGET ITEM: Professional Services

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

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Legal (1)	\$643,420	\$39,681	\$159,681	\$325,000	<b>\$300,000</b>	(\$25,000)	-7.7%
Accreditation Team (2)	1,127,068	594,242	1,220,175	1,296,640	<b>1,318,290</b>	21,650	1.7%
Royalties (3)	1,289,034	233,808	1,584,930	1,787,940	<b>1,371,386</b>	(416,554)	-23.3%
Benefits (4)	240,493	122,013	405,013	370,900	<b>618,400</b>	247,500	66.7%
Audit (5)	306,294	182,884	360,540	447,731	<b>435,560</b>	(12,171)	-2.7%
Consumer Awareness (6)	477,664	186,512	456,412	450,000	<b>334,000</b>	(116,000)	-25.8%
Implementation/Upgrade (7)	4,601,971	2,347,051	4,660,603	5,020,065	<b>5,329,043</b>	308,978	6.2%
Data Modeling (8)	2,950,000		2,950,000	2,950,000	<b>2,950,000</b>		0.0%
Other Professional Services (9)	4,094,955	2,255,255	5,213,734	4,791,045	<b>4,623,173</b>	(167,872)	-3.5%
Total	<u>\$15,730,899</u>	<u>\$5,961,446</u>	<u>\$17,011,088</u>	<u>\$17,439,321</u>	<u><b>\$17,279,852</b></u>	<u>(\$159,469)</u>	-0.9%

- (1) The legal budget covers potential engagement of outside legal firms to assist the Legal Division in (1) needed expertise to assist in complex and specialized regulatory issues and projects; (2) labor and employment issues; (3) corporate matters relating to contracts, tax, and benefits; and (4) amicus briefs filed at the request of NAIC members.
- (2) The NAIC contracts with independent teams to conduct reviews of insurance departments seeking accreditation under the NAIC Financial Regulation Standards and Accreditation Program. The budget is based on the number and type of examinations to be conducted. The 2024 budget assumes 11 jurisdictions undergoing full reviews, two jurisdictions undergoing a re-review, and 10 jurisdictions undergoing pre-review. The 2023 budget included 11 full reviews, three re-reviews, and 11 pre-reviews. This line also includes training for the independent team members to discuss program guidelines, standards, review team practices, changes to the program, and NAIC tools used by members to comply with the program. Total multi-state domestics drives the number of team members assigned to each examination. The examination plan for 2024 has a number of jurisdictions with a large number of domestic insurers, increasing the total number of team members needed.
- (3) Royalties are paid to (1) financial modelers based on CMBS and/or RMBS dataset sales to third parties (\$1,330,000) and (2) the sale of NAIC products that leverage third-party technology and proprietary data (\$41,386). Fewer dataset sales in 2023 and 2024 will result in a reduction in this expense category.
- (4) Consulting and support services in the benefits category include assistance with (1) administration of the Defined Contribution Retirement Plan and Defined Benefit Retirement Plan; (2) actuarial services for the Defined Benefit Retirement Plan, including costs to terminate this plan in the near future; and (3) benefit renewals. The increase in 2023, which continues into 2024, is related to actuarial and investment consulting services necessary to terminate the Defined Benefit Plan.
- (5) Audit fees include amounts paid to independent accounting, accrediting, and information technology firms primarily for (1) annual financial examination (\$57,300); (2) Statement on Standards for Attestation Engagements (SSAE) No. 18, Reporting on Controls at a Service Organization (SOC) engagements, including SOC 1 and SOC 2 audits (\$194,000); and (3) cybersecurity audits (\$150,100).
- (6) The 2024 budget for consumer awareness contains \$234,000 in public relations consulting services to support the NAIC's core consumer awareness and education media campaign. It also includes \$100,000 for the NAIC Educational Outreach Program, a continuation of the program designed to educate domestic and international policymakers about the state-based regulatory system in the U.S. In 2022 the NAIC began developing internal resources to support these programs, reducing reliance on external firms. This approach continues into 2024. Additionally, the focus of the outside firm will shift toward more internal systems used by the NAIC Communication Division, which reallocates costs to the Other Professional Services category.

BUDGET ITEM: Professional Services (continued)

- (7) The Implementation/Upgrade category contains amounts budgeted for consulting and other professional services related to process and application improvements across all platforms. The 2024 budget includes (1) \$285,000 for web platform updates; (2) \$291,000 for work on Market Analysis Review Systems (MARS); (3) \$893,000 in staff augmentation and guidance as the NAIC continues work on several high-profile projects; (4) \$700,000 for process improvements and automation to NAIC back-office systems; (5) \$490,000 for security-related implementations; (6) \$670,000 for ongoing support of the VISION system; (7) \$120,000 to continue work on the Financial Analysis Tools Redesign (FASTR) project; (8) \$343,000 additional work on Principle-Based Reserving (PBR) Variable Annuities; (9) \$175,000 for amortization of Cloud conversion costs; (10) \$402,000 to continue work on Financial Data Repository (FDR) Modernization; and (11) \$200,000 for Regulatory Information Retrieval System (RIRS) Coding Project work. The 2024 budget also includes consulting dollars for Fiscal 2-Enterprise Data Asset Management - Phase III (\$490,000) and Fiscal 4-NAIC Education & Training Modernization Project (\$270,000). The under budget variance in 2023 is driven by hiring delays for consultants for the several major projects. The budgeted increase in 2024 is primarily due to the additional projects requiring consulting resources.
- (8) Data modeling service fees are fees paid for the modeling of CMBS and RMBS securities owned by insurers and is based on the most current contract.
- (9) Other professional services include (1) \$47,000 for the NAIC's commercial insurance brokerage fees; (2) \$304,700 for expenses related to registration software license fees, transportation, facilities, speakers, and photographers for national and major meetings; (3) \$115,000 in banking fees; (4) \$160,500 in fees for the administration, lease, and oversight of the co-location facility; (5) \$1.1 million in cloud management services; (6) \$173,000 in news and video production services; (7) \$75,000 for cybersecurity services; (8) \$192,000 for technology information subscriptions; (9) \$227,000 in consulting services for the NAIC's DE&I and leadership programs; (10) \$324,300 for data analysis; (11) \$1.3 million in staff augmentation services to fill temporary vacancies in critical but difficult to fill positions and short term resources with specific skillsets; (12) \$193,100 for various activities related to the Catastrophe (CAT) Modeling Center for Excellence; (13) \$247,100 for various outside services used throughout the association; and (14) \$116,000 in consulting services to improve internal systems used by the Communications Division. The 2023 over budget projection in other professional services is due primarily to additional resources needed to address production, migration, and remediation activities. The decrease in this expense line in 2024 is related to a reduction in resources needed for CAT modeling, and the decreasing need for data analysis resources, partially offset by a continued increase in the need for additional resources in various segments of the NAIC.

# BUDGET ITEM: Computer Services

Item Description: Fees paid to outside providers for computer processing; credit card processing; registrations for national meetings, education programs and other NAIC events; and securities valuation services.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Database Network (1)	\$1,117,848	\$466,999	\$1,038,374	\$992,214	<b>\$981,823</b>	(\$10,391)	-1.0%
Cloud Services (2)	3,650,063	1,978,154	3,876,251	4,042,752	<b>4,093,796</b>	51,044	1.3%
Securities Valuation Services (3)	2,638,532	1,387,372	2,847,317	2,830,439	<b>3,017,964</b>	187,525	6.6%
Credit Card Fees (4)	437,203	224,152	462,323	444,208	<b>508,119</b>	63,911	14.4%
Other (5)	365,971	168,319	397,195	363,279	<b>324,997</b>	(38,282)	-10.5%
Total	<u>\$8,209,617</u>	<u>\$4,224,996</u>	<u>\$8,621,460</u>	<u>\$8,672,892</u>	<u><b>\$8,926,699</b></u>	<u>\$253,807</u>	2.9%

- (1) Database Network expenses budgeted in 2024 include (1) internet, data connectivity, and network synchronization between the NAIC's co-location site and all three NAIC offices; (2) New York and Washington, D.C. office circuits and backups to the Kansas City office; (3) wireless devices; and (4) wireless network and Wi-Fi services at national meetings, NAIC events, and interim meetings. The 2023 projection includes an overage of \$56,200 for additional connectivity costs at the Spring National Meeting and Insurance Summit. The increase in the budget for 2024 incorporates the additional connectivity costs for the Insurance Summit to be held at the same location, partially offset by the elimination of the IAIS Global Seminar hosted by the NAIC in 2023.
- (2) In order to closely monitor run costs related to cloud computing, service costs are tracked separately from infrastructure costs. The under budget variance in 2023 represents savings in cloud run costs related to delays in the implementation of SERFF Modernization functionality and the conversion of staff from virtual machines to laptops. The 2024 budget includes a full year of run costs for SERFF Modernization and UCAA functionality released in 2023. As additional software and functionality for capital projects are deployed, the cost of processing in the Cloud will increase. However, the NAIC utilizes a third-party service to ensure performance optimization to minimize costs.
- (3) Securities Valuation Services represent the purchase of nationally recognized statistical ratings organization (NRSRO) ratings and security data feeds, as well as access to credit reports, industry/sector analysis, peer searches, and analysis methodologies. This information is used to produce NAIC designations for NRSRO-rated securities, including municipal bond pricing, corporate bond pricing, Bloomberg, and Moody's. The 2024 budget includes normal annual increases across all platforms.
- (4) Credit card fees include charges from vendors and banks to settle NAIC customer credit card transactions and deposit funds in the NAIC bank account. The increase in fees for 2023 and the budget for 2024 is related to the increase in customer payments via credit card and an increase in budgeted revenues.
- (5) Other computer services included in the 2024 budget represent: (1) fees for services used for the online learning platform (\$187,200); (2) fees for processing online registrations for national meetings and other NAIC events (\$22,400) and education programs (\$28,200); (3) fees for powering the national meeting and Insurance Summit mobile agenda application (\$26,850); (4) employee-based services (\$23,250); (5) applications used to support member initiatives (\$25,000); and (6) technology to scan attendee badges for professional education reporting (\$12,150). The over budget projection for 2023 is related to the implementation of applications for the Member Connect project. The decrease in the budget for 2024 is related to the elimination of several auxiliary human capital services that are no longer needed following the implementation of Workday.

BUDGET ITEM: Travel

Item Description: Includes airfare, lodging, meals, and incidental travel expenses incurred by NAIC staff, commissioners, regulators, funded consumer representatives, legislators, and international fellows.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$1,498,178	\$757,896	\$1,962,741	\$1,836,285	<b>\$1,953,709</b>	\$117,424	6.4%
Non-Staff/Non-Regulator Travel (2)	66,359	3,940	99,549	100,900	<b>92,500</b>	(8,400)	-8.3%
Sales and Marketing Travel (3)	199,413	12,941	48,860	38,497	<b>51,715</b>	13,218	34.3%
Commissioner/Regulator Travel (4)	2,054,805	1,053,645	2,599,948	2,619,863	<b>3,061,205</b>	441,342	16.8%
International Travel (5)	679,962	350,213	726,946	840,884	<b>821,574</b>	(19,310)	-2.3%
Regulatory Disaster Assistance Travel (6)	31,500		60,000	60,000	<b>60,000</b>		0.0%
Consumer Funding (7)	116,493	44,972	139,197	140,567	<b>155,621</b>	15,054	10.7%
Total	<b>\$4,646,710</b>	<b>\$2,223,607</b>	<b>\$5,637,241</b>	<b>\$5,636,996</b>	<b>\$6,196,324</b>	<b>\$559,328</b>	9.9%

- (1) Staff travel includes (1) travel to NAIC national meetings for committee staff support; (2) interim committee meetings; (3) jurisdictional visits; and (4) travel to professional seminars and training programs. In 2023, the NAIC held an unbudgeted employee training day which required travel to the Kansas City office by staff members in the New York and Washington, D.C. offices. This event is not budgeted to occur in 2024. The increase in 2024 is related to an increase in the number of staff members traveling to national meetings and event locations in direct support of the event (\$73,500) and travel in conjunction with Fiscal 1-SERFF Modernization - 2024 Transition Stages (\$23,790). The 2024 budget also incorporates an anticipated increase in the cost of travel.C466
- (2) The 2023 budget for non-staff/non-regulator travel primarily includes (1) \$75,600 for travel expenses for legislators to attend a 2024 NAIC national meeting; (2) \$9,000 for travel and miscellaneous expenses for international regulators sponsored as part of the NAIC International Fellows Program; and (3) \$7,000 for speaker travel for CIPR programs and receptions at NAIC national meetings.
- (3) Sales and marketing travel represents travel and trade show expenses related to marketing of SERFF, OPT<sup>ins</sup>, SBS, and NAIC education and training programs. The over budget variance in 2023 is related to an increased participation at trade shows and conferences to increase awareness of NAIC products and services. The 2024 budget for this line anticipates a continuation of this level of participation, plus a slight increase to accommodate the increasing cost of travel.
- (4) Commissioner travel includes (1) \$325,000 in domestic travel for commissioners and senior regulators to participate in such events as Congressional testimony, trade association meetings, and speaking engagements for the purpose of conducting NAIC business; (2) \$787,500 to sponsor commissioner and senior regulator travel to all NAIC national meetings; (3) \$217,100 to fund commissioner travel to the Commissioners' Conference; (4) \$562,700 to fund regulator travel to the Insurance Summit; (5) \$150,000 for commissioner travel to the annual Committee Assignment Meeting, All Commissioner DC Fly-In, and International Insurance Forum; (6) \$243,500 to fund commissioner and senior regulator travel to the Commissioners' Mid-Year Roundtable; (7) \$43,300 for travel associated with support of the Financial Analysis (E) Working Group (FAWG); (8) \$13,500 for travel associated with support of the Market Actions (D) Working Group (MAWG); (9) \$78,600 for regulator travel for Peer Review examinations; (10) \$84,200 for training on new SERFF functionality included in Fiscal 1-SERFF Modernization - 2024 Transition Stages; (11) \$135,000 to fund regulator travel to the SBS Summit; (12) \$237,900 for travel to training as discussed in Fiscal 2-Enterprise Data Asset Management - Phase III; (13) \$105,000 to fund travel to the DE&I Conference; and (14) \$78,500 for various other regulatory events and meetings. The 2024 budget has been increased to cover the rising cost of regulator travel to NAIC events and the addition of a funded senior regulator travel for the Commissioners' Mid-Year Roundtable. The remaining increase in 2024 is to fund regulator travel for training included in Fiscal 2-Enterprise Data Asset Management - Phase III.



BUDGET ITEM: Travel (continued)

- (5) International travel includes \$440,800 for regulator travel and participation in meetings such as the IAIS, the Organization for Economic Cooperation and Development (OECD), and the International Accounting Standards Board (IASB), among many others. The remainder is for NAIC staff travel to support regulators during certain international regulatory meetings. NAIC members are committed to ensuring U.S. regulatory processes and practices are aligned with international standards development and coordinated with activities of federal agencies. The 2023 projection and 2024 budget reflect the slow but steady return to a pre-pandemic level of international travel.
- (6) Projected 2023 expense for Regulatory Disaster Assistance travel represents NAIC's commitment to fund volunteer regulators to assist following devastating disasters should they occur during the remainder of the year. The 2024 budget is to ensure needs of this nature will be met, should they arise, in the coming year.
- (7) The consumer funding budget is allocated for the NAIC's funded consumer representatives to attend national meetings and pay for the NAIC Consumer Board of Trustees luncheon. The budget includes domestic and international travel. The 2024 budget includes an increase of \$15,000 to cover the increasing cost of travel.

BUDGET ITEM: Occupancy and Rental

Item Description: Includes rent, building operating expenses, maintenance fees, parking, cleaning, warehouse storage, and equipment rental.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Rent (1)	\$2,814,766	\$1,389,055	\$3,047,808	\$2,807,749	<b>\$3,115,417</b>	\$307,668	11.0%
Utilities and Parking (2)	1,243,239	362,502	836,792	1,205,368	<b>816,038</b>	(389,330)	-32.3%
Warehouse (3)	41,941	19,285	39,967	24,125	<b>53,223</b>	29,098	120.6%
Equipment Rental and Maintenance (4)	648,728	331,756	614,762	552,447	<b>569,809</b>	17,362	3.1%
National Meeting Equipment Rental (5)	31,793		58,768	54,104	<b>89,488</b>	35,384	65.4%
Total	<u>\$4,780,467</u>	<u>\$2,124,066</u>	<u>\$4,598,097</u>	<u>\$4,643,793</u>	<u><b>\$4,643,975</b></u>	<u>\$182</u>	0.0%

U.S. Generally Accepted Accounting Principles (GAAP) requires rent expense, including scheduled increases in rent payments, to be recognized as expense evenly throughout the life of the lease. GAAP also requires incentive allowances reimbursed to the NAIC for leasehold improvements, furniture and equipment, and base rent differential be recorded on the balance sheet and amortized against rent expense over the life of the lease.

- (1) Rent expense for the Central Office in Kansas City, MO at 1111 Main (formerly Town Pavilion) is currently \$201,906 monthly for 146,283 square feet (\$16.56 per square foot per year), with a lease expiration of February 29, 2024. Incentive allowances reduce base rent by \$100,114 per month. In March 2023, the NAIC executed an agreement to extend the existing lease at 1111 Main for an additional 12 years, through February 2036, with square footage of 108,955. The NAIC is currently working on an extensive remodel of leased space under the new agreement. Per GAAP requirements, the remainder of the existing lease and the new lease are combined to generate the accounting under the new lease. Rent expense for the first year of the combined lease will be \$130,353 per month, representing NAIC's use of the full 146,283 square feet of space, while rent for the remaining 12 years of the lease will be \$150,813 per month (\$16.61 per square foot per year) to represent the use of 108,955 square feet at current market values.

Current rent expense for the Executive Office in Washington, D.C. in the Hall of the States is \$64,723 monthly for 11,512 square feet (\$67.47 per square foot per year), with a lease expiration of January 31, 2024. NAIC has signed a lease for space to house the NAIC Executive Office at 1101 K Street in Washington, D.C. The new lease is for 11,000 square feet at a monthly cost of \$50,316 (\$54.89 per square foot) with an expiration date of July 31, 2037.

Rent expense for the Capital Markets and Investment Analysis Office in New York City, NY at One New York Plaza is \$63,991 monthly for 18,844 rentable square feet (\$40.75 per square foot per year), with a lease expiration of June 30, 2027.

- (2) The NAIC received an unexpected refund for 2022 operating expenses during 2023 related to the Kansas City, MO leasehold. The reduction in the budget for 2024 is related to the removal of additional operating costs for the Washington, D.C. and Kansas City, MO leaseholds as the first year of these leases will reestablish the baseline for these expenses. These costs will return in 2025.
- (3) Warehouse storage will increase in 2023 and in early 2024 related to the need to store furniture and equipment for the Kansas City office remodel. The 2024 budget also includes the cost from the warehouse storage vendor to digitize and shred stored NAIC paper documents.
- (4) Equipment rental includes the cost to rent and maintain copiers for the NAIC copy center and staff copy areas, computer equipment, and other business operational equipment. The over budget variance in 2023, which carries into 2024, relates to an increase in infrastructure needs related to cloud computing.
- (5) The 2024 budget is based on rental equipment needs at the selected meeting locations. The increase in this category in 2024 is related to additional rental requirements and the cost of those items charged by hotels and convention centers for the Spring and Summer National Meetings.

E9: Occupancy and Rental

BUDGET ITEM: Computer Hardware and Software Maintenance

Item Description: Maintenance fees on computer hardware, software, and computer-related equipment.

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Hardware Maintenance (1)	\$310,815	\$92,144	\$152,163	\$282,859	<b>\$82,012</b>	(\$200,847)	-71.0%
Software Maintenance (2)	7,411,439	4,037,916	8,664,025	7,939,402	<b>10,480,055</b>	2,540,653	32.0%
Total	<u>\$7,722,254</u>	<u>\$4,130,060</u>	<u>\$8,816,188</u>	<u>\$8,222,261</u>	<b><u>\$10,562,067</u></b>	<u>\$2,339,806</u>	28.5%

- (1) Hardware maintenance includes fees on hardware that resides in the NAIC data center, as well as maintenance on portable computer devices such as laptops. Maintenance agreements for storage devices have decreased with additional applications moving to the Cloud.
- (2) Software maintenance includes subscription fees for software products that are essential to NAIC's role in support of regulatory activities. The overage in 2023 is related to additional software needed that was not anticipated during the budgeting process. The 2024 budget incorporates a full year fee for these additional subscriptions, an average annual subscription renewal rate of less than 10%, upgrades to more robust versions of exiting tools, and the addition of \$1.5 million in software costs related to the deployment of segments of the SERFF Modernization, UCAA, and ERP projects.

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation and amortization for all capital assets owned as of June 30, 2023 projected purchases through December 31, 2023, and purchases budgeted in 2024.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$1,356,282	\$567,689	\$1,046,610	\$1,024,226	<b>\$619,643</b>	(\$404,583)	-39.5%
Amortization (2)	2,650,021	1,364,649	3,012,428	3,347,261	<b>4,997,451</b>	1,650,190	49.3%
Total	<u>\$4,006,303</u>	<u>\$1,932,338</u>	<u>\$4,059,038</u>	<u>\$4,371,487</u>	<u><b>\$5,617,094</b></u>	<u>\$1,245,607</u>	28.5%

- (1) Depreciation is calculated on a straight-line basis over the useful life of capital assets owned by the NAIC, which is five years for furniture and equipment and three years for computer hardware and software. The amount of depreciation expense in a given year is related to the purchase of capital assets in the current and preceding years. The purchase of equipment to reside in NAIC offices is declining as cloud-based technology implementations continue.
- (2) Amortization is computed on a straight-line basis for capitalized assets such as leasehold improvements and costs incurred for major computer application projects and system upgrades. The initial useful life of this class of assets is approximately 10-12 years, but are assigned to specific assets based on each asset's useful life. The under budget variance in 2023 is related to deployment of a few major projects five to six months later than expected as well as cost savings on the initial phase of the ERP project. The increase in 2024 is related to (1) the remodel of the NAIC Central Office in Kansas City, MO (\$273,200); (2) a full year of amortization of phase I of the ERP project (\$112,500); (3) completion of phase II of the ERP project (\$136,400); (4) a full year of amortization of UCAA - Phase I project at a higher cost (\$240,600); (5) a full year of amortization of SERFF Modernization - 2022 and 2023 Transition Stages (\$40,500); and (6) the addition of amortization for Fiscal 1-SERFF Modernization - 2024 Transition Stages scheduled for deployment in June 2024 (\$763,000). The build out of new office space for the NAIC Executive Office in Washington, D.C. will result in a decrease in amortization of \$5,600 over the prior lease.

See Exhibit E11-One for a list of capital acquisitions and Exhibit E11-Two for detailed information on specific items with a unit cost of \$25,000 or greater.

BUDGET ITEM: Depreciation and Amortization (continued)

	2024 Capital Budget	2023 Capital Budget	2023 Capital Projection
Furniture and Equipment	\$2,475,134	\$1,003,783	\$1,003,783
Computer Software	874,492	1,906,286	962,590
	<hr/>		
Total Capital Requests	<u>\$3,349,626</u>	<u>\$2,910,069</u>	<u>\$1,966,373</u>

	2024 Budget	2023 Budget	2023 Projection
Leasehold Improvements	\$3,486,872	\$7,485,307	\$7,485,307
Consulting	11,788,014	9,950,281	9,839,525
	<hr/>		
Total Requests	<u>\$15,274,886</u>	<u>\$17,435,588</u>	<u>\$17,324,832</u>
Amortization on Prior Year Expenditures			

### 2024 Capital Expenditures

	<b>Furniture</b>	<b>Computer Software</b>	<b>Leasehold</b>	<b>Consulting</b>
Description	Total	Total	Total	Total
ERP Phase II				\$1,168,806
Remodel of NAIC Central Office in Kansas City, MO	\$2,475,134	\$846,855	\$3,486,872	
Fiscal 1 - SERFF Modernization - 2024 Transition Stages				5,825,272
Fiscal 5 - IT VISION Systems Enhancements - 2024		27,637		1,587,936
Fiscal 6 - Uniform Certificate of Authority Application (UCAA) - Phase II				3,206,000
	<u>\$2,475,134</u>	<u>\$874,492</u>	<u>\$3,486,872</u>	<u>\$11,788,014</u>

## 2024 Proposed Capital Expenditures Unit Cost \$25,000 or Greater

Capital requests for NAIC technology infrastructure fall into four primary categories: (1) cost or labor saving; (2) high availability or disaster recovery; (3) useful life; and (4) technology trend. A technology trend is a project that would better utilize an existing resource or address a current issue. Consulting costs may be incurred in the development of software code for major systems with a life greater than one year.

### Useful Life

- **Remodel of Central Office in Kansas City, MO (\$5,962,006)** – The current lease for the Central Office in Kansas City, MO expires in February 2024. A new lease has been signed and remodeling of the area is underway. Capitalized costs for this project in 2024 include technology and software (\$846,855), furniture (\$2,475,134) and leasehold expenses (\$7,408,940).

### Technology Trend

- **Enterprise Resource Planning (ERP) Software (\$1,168,806)** – In 2022, the NAIC began a project to convert current disparate operational applications into one cloud-based, integrated software suite to handle human capital management, accounting, financial management, payroll, and procurement. Capitalized costs for this project in 2024 include consulting (\$1,168,806).
- **SERFF Modernization – 2024 Transition Stages (\$5,825,272)** – The NAIC began a multi-year project in 2022 to modernize the SERFF platform. The project is designed to take advantage of new technological developments, particularly in the areas of document management, workflow, and artificial intelligence. The third year of this project will continue modernization work and begin to move users to the new platform. Capitalized costs for this project in 2024 include consulting (\$5,825,272).
- **IT VISION Systems Enhancements – 2024 (\$1,615,573)** – This three-year project is designed to provide significant infrastructure upgrades to improve support to the Securities Valuation Office (SVO) and enhance VISION. It will include breaking monolithic applications, such as VISION and AVS+, into smaller applications to allow teams to modernize the specific applications to utilize best practice frameworks and deploy them to the desired NAIC end-state hosting platform. Capitalized costs for this project in 2024 include software (\$27,637) and consulting (\$1,587,936).
- **Uniform Certificate of Authority Application (UCAA) – Phase II (\$3,206,000)** – Over the past few years, the NAIC has been working to redesign UCAA in a cloud-native solution to expand the number of company licensing-related applications that can be submitted electronically. Phase II will expand the offerings provided to include corporate expansions, domestic corporate amendments, and foreign corporate amendments into the new cloud-based platform. Capitalized costs for this project in 2024 include consulting (\$3,206,000).

# BUDGET ITEM: Operational

Item Description: Includes operational expenses for the NAIC offices including insurance; office and computer supplies including laptops and printers; postal and shipping charges; and marketing materials. The branding expense line includes registration and incidental fees charged by organizations for participation in their trade shows attendance at recruiting events, and branded materials distributed at NAIC events.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Insurance (1)	\$479,352	\$253,771	\$509,053	\$537,542	<b>\$534,437</b>	(\$3,105)	-0.6%
Telephone (2)	143,259	1,903	11,031	17,722	<b>16,570</b>	(1,152)	-6.5%
Supplies (3)	179,267	315,180	466,747	317,131	<b>466,063</b>	148,932	47.0%
Non-Capital Equipment (4)	706,468	354,963	467,476	318,721	<b>349,728</b>	31,007	9.7%
Mail Services (5)	145,630	93,178	167,532	148,581	<b>140,447</b>	(8,134)	-5.5%
Branding (6)		92,911	304,760	270,142	<b>290,461</b>	20,319	7.5%
	<u>\$1,653,976</u>	<u>\$1,111,906</u>	<u>\$1,926,599</u>	<u>\$1,609,839</u>	<u><b>\$1,797,706</b></u>	<u>\$187,867</u>	11.7%

- (1) Insurance premiums at the May 2023 renewal date resulted in slightly lower fees than budgeted. The 2024 budget includes an increase of less than 10% over existing premiums for the May 2024 renewals.
- (2) The decrease in budgeted telephone expense is related to the conversion of phone service to a cloud-based platform at the end of 2022.
- (3) Supplies include purchases of copy paper, common area supplies, and miscellaneous office supplies at all NAIC offices. The 2023 projection and 2024 budget include cost to support staff in a remote environment as well as additional costs incurred to prepare for and support the Kansas City office during a major remodel.
- (4) Non-capital equipment includes non-capitalized computer equipment, such as laptops, as well as minor office equipment and computer supplies needed to furnish staff members with the tools necessary to complete their assigned tasks. Increased spending in 2022 and 2023 was to provide staff with equipment necessary to be productive in a hybrid work environment. The number and amount of those expenditures decreases in 2024 with the majority of staff already having received a laptop.
- (5) Mail services includes the cost of shipping equipment and materials to NAIC national meetings and other events and express mail services. The decrease in mail services is related to the elimination of the IAIS Global Seminar in 2024.
- (6) Branding represents registration and incidental fees charged by organizations for participation in trade shows to market NAIC products and services, such as SERFF, OPT<sup>ins</sup>, SBS, and NAIC education programs. This line also includes expenses related to attendance at recruiting and diversity events, and branded materials distributed to staff at special events. The increase in this line for 2023 is related to the addition of an unbudgeted staff event. The 2024 budget is to support continued attendance at trade shows, recruiting, and diversity events.



BUDGET ITEM: Library Reference Materials

Item Description: Includes costs for books, periodicals, and online reference services.

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Library Reference Materials (1)	\$355,095	\$200,675	\$384,214	\$383,261	<b>\$390,291</b>	\$7,030	1.8%

(1) Library reference materials include resources used in performing research by the NAIC Research Library. The reference collection is a vital source of information on insurance, legal, business, finance, and technology-related issues and supports the NAIC's fulfillment of research questions from NAIC members, NAIC staff, and interested parties. The increase in 2024 is related to annual increases in subscription rates and the addition of new digital services.

BUDGET ITEM: National and Major Meetings

Item Description: Outside costs directly related to conducting NAIC National Meetings; Commissioners' Conference; All Commissioner DC Fly-In; Commissioners' Mid-Year Roundtable; Insurance Summit; International Insurance Forum; and interim meeting expenses not classified within other budget categories. In 2023, the NAIC sponsored the IAIS Global Seminar.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$275,960	\$106,865	\$361,200	\$363,410	<b>\$276,413</b>	(\$86,997)	-23.9%
Hotel Services (2)	2,077,235	1,081,667	2,721,430	2,715,450	<b>2,621,521</b>	(93,929)	-3.5%
Reproductions	81,583	30,950	83,305	78,824	<b>90,340</b>	11,516	14.6%
Audio-Visual Services (3)	1,739,759	832,132	2,084,945	1,872,144	<b>1,678,032</b>	(194,112)	-10.4%
Interim Meetings (4)	396,558	520,964	899,681	652,963	<b>684,379</b>	31,416	4.8%
Total	<u>\$4,571,095</u>	<u>\$2,572,578</u>	<u>\$6,150,561</u>	<u>\$5,682,791</u>	<u><b>\$5,350,685</b></u>	<u>(\$332,106)</u>	-5.8%

In 2023, the NAIC hosted for the IAIS Global Seminar in Seattle. The event was open to all attendees with payment of a registration fee which was included in National and Major Meetings revenue (see Footnote R6). Expenses for this event appear throughout the budget, with \$601,400 of the total \$669,100 budget and \$649,950 of the total \$759,760 in actual expenses is reflected in Commissioner Travel (see Footnote E8a) and this expense category. Members of the IAIS voluntarily host events in support of the organization. The last event hosted by the NAIC was the IAIS 2012 Annual Conference. The one-time costs related to the IAIS event have been identified in the footnotes below.

	National Meeting Locations		
Year	Spring	Summer	Fall
2024	Phoenix	Chicago	Denver
2023	Louisville	Seattle	Orlando
2022	Kansas City	Portland	Tampa

- (1) Expenses for receptions reflect the cost of food and beverage services and charges for the NAIC's welcome reception at (1) national meetings; (2) Commissioners' Conference; (3) All Commissioner DC Fly-In; (4) Commissioners' Mid-Year Roundtable; (5) Insurance Summit; and (6) International Insurance Forum. The budget is based on quotes for food and beverage costs for selected meeting sites. The decrease in 2024 is driven by the removal of the IAIS Global Insurance Seminar (\$32,850) and concessions for the date change of the Summer National Meeting, which includes a complimentary welcome reception (\$60,000).
- (2) Hotel services include the cost of (1) technology support; (2) electrical support; (3) regulator and staff breakfasts and lunches; (4) regulator, staff, and industry breaks; (5) transportation; and (6) other hotel charges. The 2024 budget is based on quotes from host hotels and convention centers which incorporate the expected number of attendees. The 2024 budget does not include food and beverage for the IAIS Global Seminar, budgeted at \$252,600 in 2023. This majority of this reduction has been offset by the dramatic increase in cost of food and beverage services experienced in recent years.
- (3) Audio-visual services include microphones, video equipment, electronic presentations, and labor costs associated with setup and operation of these services. Budgets for audiovisual needs were developed based on immediate post pandemic needs. As attendance and the agenda at the events have grown post pandemic the need for additional audio-visual services has also grown creating a variance in this account. The majority of the over budget variance in 2023 is related to increased services and labor charges at the NAIC 2023 Summer National Meeting. The 2024 budget is based on quotes from host hotels and convention centers which incorporate the expected number of attendees. The 2024 budget does not include audio-visual for the IAIS Global Seminar, budgeted at \$223,800 in 2023. The budget for audio-visual costs for all events, including the three national meetings, will increase by approximately \$25,700 as quoted by service providers.

BUDGET ITEM: National and Major Meetings (continued)

- (4) The interim meeting budget represents costs associated with meetings on key initiatives that are not otherwise classified within the NAIC's budget. Interim meeting expenses include group meals, meeting room rental, audio-visual and food and beverage. The over budget variance in 2023 is related to the expansion of the DE&I Conference and an unbudgeted employee training day. The 2024 budget is to cover (1) the annual DE&I Conference (\$175,300) for NAIC staff and several regulators; (2) several diversity sessions (\$95,500); (3) SBS Summit (\$25,200); (4) CIPR programs at national meetings (\$22,500); (5) leadership and management sessions (\$200,000); (6) IAIS meetings hosted by the NAIC (\$57,000); and (7) the Collaboration Forum (\$22,500).

BUDGET ITEM: Education and Training

Item Description: Expenses incurred by the NAIC for education programs.

<u>Description</u>	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	<b>2024 Budget</b>	Increase (Decrease)	Percentage
Education Programs (1)	\$73,844	\$63,329	\$343,777	\$280,739	<b>\$250,689</b>	(\$30,050)	-10.7%

(1) The purpose of the Education and Training function is to manage the NAIC's regulatory curriculum. The core focus is identifying and seizing opportunities to develop on-demand training and development of products, while assuring the integrity and comprehensiveness of the curriculum as a whole. In the examination of education opportunities, the goal is to achieve a balance between meeting the regulatory training needs of department of insurance employees and assisting industry clients through a broader range of compliance training topics. The NAIC educational curriculum is offered to department of insurance employees and consumer advocates at no charge. The over budget variance in 2023 is due to an increase in the number of Practical Manager trainings provided to member jurisdictions. The 2024 budget assumes a return to normal levels of training in this category as well as the elimination of expenses for the biennial offering of the Regulatory Leadership Forum.

BUDGET ITEM: Grant and Zone

Item Description: Utilization of grant and zone funds and expenses for zone-sponsored events.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	\$1,321,387	\$460,916	\$2,010,000	\$2,010,000	<b>\$1,730,000</b>	(\$280,000)	-13.9%
Zone Scholarship Funds (2)	5,272	1,037	9,037	9,000	<b>9,000</b>		0.0%
Zone Technical Training (3)	268,511	66,091	314,296	444,500	<b>392,000</b>	(52,500)	-11.8%
Zone Expenses (4)	543,622	175,254	333,254	321,450	<b>314,000</b>	(7,450)	-2.3%
Total	<u>\$2,138,792</u>	<u>\$703,298</u>	<u>\$2,666,587</u>	<u>\$2,784,950</u>	<u><b>\$2,445,000</b></u>	<u>(\$339,950)</u>	-12.2%

- (1) Grant funding will be \$30,000 per member (\$1,680,000). The budget was increased to \$30,000 from \$20,000 in 2023. An additional \$50,000 is budgeted to assist members with special funding needs during 2024. The 2023 projection assumes carry over funding approved for 2023 will be fully utilized.
- (2) Zone Scholarship funds represent the utilization of training dollars allocated to each member by the four Zones. Grant funding balances are used by members first as they do not carry forward to the following year. Zone fund balances are available until used by the member.
- (3) Zone Technical Training funds are used by NAIC Zones to fund technical training for the Zone as a whole. Funding is derived from the allocation of unused Grant funding for members within a particular Zone. The 2023 projection reflects the continued return to and increased demand for zone training events following restrictions during COVID-19. The 2024 budget assumes the continuation of in-person Zone events at higher costs.
- (4) NAIC allocates funding to NAIC Zones annually to fund activities of the Zones. These activities include Zone conferences, Zone meetings at national meetings, and funding of member training allocations (Zone Scholarship Funds) in addition to NAIC Grant funds. NAIC funding includes (1) \$2,500 per Zone member, with a minimum of \$60,000 per Zone (\$247,500) and (2) \$2,500 per Zone members to be used by the Zones to provide additional training opportunities for their members (\$140,000). The slight decrease in 2024 budget represents a shift in focus by most Zones toward technical training events rather than general purpose events.

BUDGET ITEM: Other

Item Description: Costs incurred for the NAIC's membership in other organizations, recruiting employees, bad debt allowances, member relations, and other expense.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Professional Association Dues - NAIC (1)	\$789,492	\$832,242	\$860,653	\$858,780	<b>\$930,772</b>	\$71,992	8.4%
Recruiting and Relocation (2)	352,055	138,489	266,494	322,492	<b>330,800</b>	8,308	2.6%
Bad Debt Expense (3)	43,643	8,302	24,962	20,000	<b>25,000</b>	5,000	25.0%
Member Relations (4)	18,363	9,858	12,858	15,000	<b>15,000</b>		0.0%
Other Expense (5)	200,000						
Total	<b>\$1,403,553</b>	<b>\$988,891</b>	<b>\$1,164,967</b>	<b>\$1,216,272</b>	<b>\$1,301,572</b>	<b>\$85,300</b>	7.0%

- (1) Professional Association dues includes \$875,425 for the NAIC's annual membership in the IAIS, an increase of \$63,865 over the dues paid in 2023. The IAIS is expected to budget a 4.0% increase in dues in 2024, calculated in Swiss Francs. The increase in 2023 was 4.5% and 5.0% in 2022. The NAIC bears the currency conversion rate risk on this membership fee. The conversion rate at the time the budget was calculated was higher than the rate paid in 2023.
- (2) Recruiting agencies are used to fill open positions with qualified individuals with a unique/specific skill set and those at higher levels of management within the association when standard methods of recruitment prove unsuccessful. The 2023 projection reflects the continued use of outside firms to secure qualified individuals in today's remote labor market. The 2024 budget assumes a continuation of the need to broaden the search for viable candidates.
- (3) Bad debt expense is a provision for future uncollectible customer accounts receivable.
- (4) The member relations account includes expenses associated with the Dineen Award and recognition of NAIC Members and Officers.
- (5) In 2022, the NAIC provided \$200,000 for the initial funding to cover start up costs of the New Avenues to Insurance Careers Foundation (N.A.I.C.). This funding was approved by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee on April 4, 2022.

# BUDGET ITEM: Investment Income

Item Description: Interest, dividends, and realized and unrealized gains/losses, partially offset by investment advisory management fees on the NAIC investment portfolio and cash equivalents.

Description	2022 Actual	6/30/2023 Actual	12/31/2023 Projected	2023 Budget	2024 Budget	Increase (Decrease)	Percentage
Interest Income (1)	\$564,399	\$1,039,856	\$1,584,725	\$351,500	<b>\$1,254,000</b>	\$902,500	256.8%
Dividend Income (2)	3,131,095	1,375,376	2,728,315	2,400,000	<b>2,400,000</b>		0.0%
Realized Gain/(Loss) (3)	2,528,794	(1,685,755)	(1,437,950)				
Unrealized Gain/(Loss) (3)	(22,727,721)	8,591,287	4,738,580				
Investment Fees (4)	(308,898)	(129,641)	(305,489)	(360,000)	<b>(360,000)</b>		0.0%
Total	<u>(\$16,812,331)</u>	<u>\$9,191,123</u>	<u>\$7,308,181</u>	<u>\$2,391,500</u>	<u><b>\$3,294,000</b></u>	<u>\$902,500</u>	<u>37.7%</u>

Investment income includes (1) projected interest income on the long-term fixed income portfolio and short-term investments; (2) dividend income from the equity portfolio; (3) realized and unrealized gains and losses; partially offset by (4) investment advisory fees for the management of the NAIC long-term investment portfolio. NAIC uses actual results through September to project year-end results for the current year. These projections are monitored closely throughout the year. Realized and unrealized gains or losses are not budgeted due to the volatility of the market.

- (1) The over budget performance in 2023 and the increased budget in 2024 are driven by the current rising interest rate environment.
- (2) Dividend income is projected based on current and historical dividend receipts. The 2023 projection is expected to exceed budget based on the current financial markets and mix of NAIC investments. Budgeted 2024 dividend income reflects expected income in light of market uncertainty and mix of equity investments.
- (3) Unrealized gain and loss adjustments to market value are required by GAAP when reporting actual financial results but are not budgeted due to the unpredictability of financial markets. Realized gains as of September 30, 2023, were generated from the sale of existing financial holdings as part of the ongoing investment strategy. Fluctuations in market gains and losses are expected during the remainder of 2023 and during 2024.
- (4) GAAP requires the presentation of investment advisory management fees as an offset to investment income. Fees for the NAIC's long-term investment portfolio are budgeted to increase over 2023 projections based on current market trends.

**2024 BUDGET  
FISCAL IMPACT STATEMENTS**

Fiscal Number	Description	2024 Budget			Net Impact 2024 Budget
		Capital Expenditures	Revenues	Expenses	
	Total Revenues Over/(Under) Expenses Before Fiscals and Investment Income	\$11,899,735	\$154,003,442	\$154,983,024	<b>(\$979,582)</b>
1	SERFF Modernization – 2024 Transition Stages	5,825,272		689,056	<b>(689,056)</b>
2	Enterprise Data Asset Management – Phase III			1,225,551	<b>(1,225,551)</b>
3	Expand NAIC Expertise – 2024			456,959	<b>(456,959)</b>
4	NAIC Education & Training Modernization Project			529,985	<b>(529,985)</b>
5	IT VISION System Enhancements – 2024	1,615,573		353,659	<b>(353,659)</b>
6	Uniform Certificate of Authority Application (UCAA) – Phase II	3,206,000		129,717	<b>(129,717)</b>
	Total Fiscal Revenues Over/(Under) Expenses	10,646,845		3,384,927	<b>(3,384,927)</b>
	Investment Income		3,294,000		<b>3,294,000</b>
	Total Revenues Over/(Under) Expenses	<u>\$22,546,580</u>	<u>\$157,297,442</u>	<u>\$158,367,951</u>	<b><u>(\$1,070,509)</u></b>



## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>SERFF MODERNIZATION – 2024 TRANSITION STAGES</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE</b>
<b>NAIC STAFF SUPPORT:</b>	<b>SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>JANUARY 1, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>DECEMBER 31, 2024</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$689,056</b>
<b>(2025):</b>	<b>\$1,097,520</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$5,825,272</b>
<b>(2025):</b>	<b>\$0</b>

### I. Executive Summary:

The NAIC's System for Electronic Rates and Forms Filing (SERFF) was launched collaboratively by regulators and industry more than 22 years ago and was designed to provide an efficient process for insurer product filings and subsequent regulatory review. The system handles requirements for product filing submissions, allowing companies to submit product filings to jurisdictions, which are subsequently reviewed by regulators and the results are communicated with the companies. Today, 53 jurisdictions accept SERFF filings made by more than 5,000 companies and the system processes more than 550,000 transactions every year for Life, Health, and Property/Casualty filings as well as capabilities for the Interstate Insurance Product Regulation Commission (Insurance Compact) in regard to the Affordable Care Act (ACA).

Modernizing the platform enables SERFF to take advantage of new technological developments in document management and workflow. Additionally, using new developments in artificial intelligence for text processing is proving beneficial to the product filing and review process.

In 2021, the NAIC moved forward with a Mobilization and Pilot phase with two main objectives: first, to select the best and most robust technology solutions to meet current and future business needs and second, to work with external expertise to develop a proof of concept for a new, modern SERFF platform. In 2022, a fiscal for the first phase of the modernization approved funding to continue the engagement with the Mobilization and Pilot phase's vendor and provided funding for stages T1, T2, and initial work of T3.1, as defined in the roadmap and transition plan shown in Table 1. T1 and T2 stages included new search functionality and improved reporting for the existing SERFF application, which were planned for deployment in late 2022, with work beginning on stage T3.1 to transition the Insurance Compact in 2023.

Transition stage T1 was externally released to production in the first quarter of 2023, with a phased rollout completed in May. Transition stage T2 was released to production in June 2023. Progress on T3.1, initially estimated for release in fall 2023, was delayed by the first two stages; the current estimate for completion of T3.1 is summer 2024.

**Table 1**

<b>T1</b>	Search capabilities	<ul style="list-style-type: none"> <li>Key word searches across all filings and documents</li> <li>Document comparison</li> </ul>
<b>T2</b>	Reporting capabilities	<ul style="list-style-type: none"> <li>Standard and custom reporting options</li> <li>Data export functionality</li> </ul>
<b>T3.1</b>	Insurance Compact filings and users & Public Access	<ul style="list-style-type: none"> <li>Customized screens and workflows for Insurance Compact</li> <li>Filing preparation and submittal with required upfront validation for Insurance Compact</li> <li>Document analysis and comparison capabilities for Insurance Compact</li> <li>Collaboration tools for Insurance Compact</li> <li>Workflow management for Insurance Compact</li> </ul>
<b>T3.2</b>	Life filings and users & Public Access	<ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for Life filings</li> <li>Filing preparation and submittal with required upfront validation for Life filings</li> <li>Document analysis and comparison capabilities for Life filings</li> <li>Collaboration tools for Life filings</li> <li>Workflow management for Life filings</li> </ul>
<b>T3.3</b>	Property & Casualty filings and users, APIs, and Public Access	<ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for P&amp;C filings</li> <li>Filing preparation and submittal with required upfront validation for P&amp;C filings</li> <li>Document analysis and comparison capabilities for P&amp;C filings</li> <li>Collaboration tools for P&amp;C filings</li> <li>Workflow management for P&amp;C filings</li> </ul>
<b>T3.4</b>	Health filings and users & Public Access	<ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for Health filings</li> <li>Filing preparation and submittal with required upfront validation for Health filings</li> <li>Document analysis and comparison capabilities for Health filings</li> <li>Collaboration tools for Health filings</li> <li>Workflow management for Health filings</li> <li>URR schedule for Health filings</li> </ul>
<b>T4</b>	Target State-All functionality in new SERFF	<ul style="list-style-type: none"> <li>Binder-create, validate, submit, correspondence, search, and reporting</li> <li>Plan transfer</li> <li>Template validation</li> <li>Associated schedule items</li> </ul>

The technology piloted in 2021 is meeting the needs of the new SERFF system and the tools are integrating well. However, the complexity of the existing system along with the new functionality to be delivered was underestimated in the 2022 fiscal. While transition stage T3.1 was delayed by roughly 10 months, the project development is on a positive track and the teams have met goals for the current and prior program increments. It is unlikely the team will make up time, but further delays are not expected.

This fiscal requests funding for the third year of this multi-year project to continue the modernization work. The plan is to complete T3.1, which includes work for the Insurance Compact and then start on T3.2, which includes Life filings. As with the prior two stages of the project, progress on T3.2 will be dependent on the completion of T3.1.

**Table 2** shows the current timeline for the remaining transition stages. As previously noted, each stage's start date will be determined by the completion date of the previous stage.

**Table 2**

Stage	<b>T3.1 (Compact)</b>	<b>T3.2 (Life)</b>	<b>T3.3 (P/C)</b>	<b>T3.4 (Health)</b>	<b>T4 (Plan Mgmt)</b>
<b>Start</b>	Underway	July 2024	January 2025	July 2025	January 2026
<b>Completion</b>	July 2024	December 2024	July 2025	December 2025	August 2026

## **II. Key Deliverables:**

One of the key components of the transition plan is to provide benefits to system users as soon as possible and to continue this integrative approach with new and improved capabilities. Workflow customization has begun on transition stage T3 and will allow jurisdictions greater flexibility and expansion of use beyond rates and forms filings, if desired. Transition stage T3 will also see the deployment of the new platform and will employ low-code technology to help quickly build more jurisdiction-specific options into workflows. The low-code platform will provide building blocks that can be pulled together without writing large amounts of programming code and offers more flexible workflows with faster feature delivery.

In 2024, the key deliverables are as follows:

- Complete phase T3.1 so Insurance Compact users can utilize the platform.
- Complete the majority, if not all, of the development work required for Life users (T3.2).
- Develop and provide training for products going into production in 2024.
- Continue requirements gathering events with P/C and Health SERFF users in anticipation of undertaking those stages. This effort has been ongoing since project inception and jurisdiction visits, focus groups, and Product Steering Committee sessions will continue in 2024 in addition to the larger events for P/C and Health.
- Develop the data and transactional web services following each transition stage so vendors can submit insurance product filings via SERFF's web services.
- Continue NAIC staff development on the selected low-code platform and other technologies used in the new system so staff can fully support the platform as stages are completed.

## **III. Initiative Benefits:**

Regulators and insurers are already seeing the benefits of the first two stages of the project. T1 improved the search capabilities in the legacy SERFF system. It improved the speed and usability of the search feature, but the most significant improvement is the ability to now search for words and phrases within the millions of documents stored in SERFF. That capability is now being leveraged in phase T3.1 for basic checks on document completeness and is being used to auto-populate some form schedule data for the filer, which will further improve accuracy and reduce review time.

Transition stage two provided regulators with very robust dashboards focusing on filing metrics, workload, and productivity. To date, 39 jurisdictions and the Insurance Compact have requested access to the dashboards for nearly 250 regulators and users.

The overarching goal of the modernization project is to gain operational efficiencies while taking advantage of technology and innovation opportunities available today. Both regulator and industry users are increasingly resource constrained. However, the new system will be easier and more intuitive to use, implement quality control checks to prevent incomplete filings, enhance communications between filers and reviewers, and provide access to data more easily. In the end, filings will be made more quickly and with fewer errors, enabling regulators to review the filings more easily and provide feedback in a streamlined manner captured by the system.

The modernized platform will also be set up to integrate with other anticipated technological advancements such as artificial intelligence, business intelligence, machine learning, and other data analysis tools. The system's architecture will allow information from other NAIC systems to be more

readily available, which will then display all the information needed to complete the review in one easy to use location.

Specifically, regulators will see improvements in the following areas:

- Reduced number of screen navigations and clicks needed to review filings, speeding up the review process.
- Ability to receive and view different types of files/forms.
- Ability to download and view multiple filings, using different windows when reviewing.
- Ability to configure and/or reorder the filing to better facilitate the review.
- Improved ability to communicate with insurance carriers, including auto text population, option to attach screenshots and notifications, extend character limit under a filing correspondence tab, and send out-of-office notifications.
- Improved regulatory collaboration concerning company filings.
- Ability to configure workflow and workflow assignments.
- Greater accessibility to the data, improved data definition, data linkages, cataloging and labeling of forms and other documents and a streamlined data structure, all of which will lead to advanced options for data visualization, mining, and reporting.
- System control checks with reminders for system content updates, confirmations, and administration highlights of incomplete fields or features not being utilized.
- Improved carrier/insurance department process related to public access and record retention.
- Ability to review filings more easily across a company's organizational structure.
- Front-end data validation and filing completion checks.
- Ability to markup and/or label reviewed documents and provide necessary commentary.

Industry users will see improvements in the following areas:

- Enhanced speed to market, not just improved efficiencies of review and turn around but also for emerging non-traditional insurers who may not be familiar with traditional processes and terminology.
- Improved system performance, especially during seasonal peaks.
- Ability to accept multiple file types, including use of hyperlinks.
- Improved communication of filing status, including a dashboard with tailored information such as days to completion, submitted filing status, and assigned reviewer.
- Increased user configurability including reports, timeout features, and filing status dashboard.
- Improved user design to address accessibility and disability needs.
- Support for mobile and handheld devices, expanding submission access opportunities.
- Greater ability to edit and/or delete data input along with ability to change filing type without having to refile.
- Addition of a filing fee calculator to provide certainty concerning filing payments.
- Increased file size to avoid having to break up attachments.
- Ability to reorder filed forms to meet jurisdiction-specific requests, with consideration of layering or hierarchy of supporting documentation.
- Improvements to the filing cloning feature.
- Improved process for deletion/destruction of data.
- Improved instructions to help filers understand new and modified filing requirements.
- Balance between required fields and those where free-form responses can be made to aid accurate completion of submission.
- SERFF reminder functionality, such as when an objection is due.

#### **IV. Financial and Organizational Impact:**

This fiscal requests funding in 2024 to finalize phases T3.1 and T3.2 as described below.

Three full-time positions are needed to support ongoing operations and transition work. These positions include a platform engineer, an implementation analyst, and a data analyst. These positions have an expected cost of \$281,457 in 2024 and \$394,956 in 2025. Work on this project will result in substantial enhancements in functionality, for which these positions will provide critical ongoing development resource support. The need for these additional staff was referenced in the prior year fiscal - SERFF Modernization – 2023 Transition Stages.

In addition to personnel, the fiscal requests \$67,600 for temporary staffing to assist with other ongoing operational support needs so current staff can remain dedicated to the SERFF Modernization Project.

Expenses of \$108,000 for staff travel to insurance departments and for regulators to travel to the NAIC for training have been included. The regulator travel would cover two sessions with NAIC staff: the first would cover initial configuration and Insurance Compact functionality held at the NAIC, while the second would take a train-the-trainer approach with Life units at the departments of insurance.

Capitalized costs of \$5,825,272 includes consulting and staff augmentation resources. Upon the completion of each phase, amortization of capitalized expenses will occur over the remaining expected 10-year life of the platform. Amortization of requested capitalized expenses for T3.1 and T3.2, as well as capitalized costs for T3.1 incurred in 2023 will be approximately \$232,000 in 2024.

See **Attachment I** for additional information.

#### **V. Risk Management Plan:**

The main risk for the initiative, as was seen in 2023, is the production schedule. The consulting vendor's learning curve for SERFF was steeper than anticipated as the system is more complex than was initially understood. Likewise, NAIC resources are required to learn the new technology while also supporting the legacy system. This is a very large project with both offshore and onshore resources being utilized and as such, it took longer than expected to form the Agile teams and get them working as efficiently as they are today.

To account for these complexities, the SERFF team implemented a new framework to assist with the scaling required for a project of this size. Senior staff worked with the vendor partner to adjust team size, number of teams, and the combination of resources to maximize efficiency. Internal resources are also quickly getting up to speed on the new platform so they can ultimately support SERFF when the project is complete. With these adjustments, teams are currently meeting program increment goals.

In the same vein, a second risk is the T3.1 rollout does not go well, causing resources to remain involved in that stage and unable to work on T3.2. Planning has begun for implementation and rollout but the risk to the schedule will remain until T3.1 is in production and verified as performing well for users.

## **VI. Security Impact:**

Multi-factor authentication will be part of the modernized SERFF, which will increase security and is consistent with best business practices.

There is enhanced auditing and logging available in the new platform. This will allow the NAIC Security team to gather the necessary information for enhanced audit controls.

All tools used in the new system are being put through the NAIC Security team's Security Vendor Assessment process. Product contracts are also reviewed by the Security team.

**2024 Budget****SERFF Modernization – 2024 Transition Stages  
Project Cost Analysis****Anticipated Start Date: January 2024****Anticipated Completion Date: December 2024**

Description	2024 Total	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$281,457</b>	\$394,956	\$415,799
Temporary Personnel	<b>67,600</b>		
Staff Travel	<b>23,790</b>		
Commissioner Travel	<b>84,210</b>		
Amortization	<b>231,999</b>	702,564	702,564
Total Expenses	<b>689,056</b>	1,097,520	1,118,363
Revenues Over (Under) Expenses	<b>(\$689,056)</b>	<b>(\$1,097,520)</b>	<b>(\$1,118,363)</b>
Capital Purchases:			
Consulting T3.1	<b>\$2,982,506</b>		
Consulting T3.2	<b>2,842,766</b>		
Total Capital Purchases	<b>\$5,825,272</b>	\$0	\$0

## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>ENTERPRISE DATA ASSET MANAGEMENT – PHASE III</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE</b>
<b>NAIC STAFF SUPPORT:</b>	<b>TODD SELLS, DIRECTOR—FINANCIAL REGULATORY POLICY &amp; DATA</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>JANUARY 1, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>DECEMBER 31, 2024</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$1,225,551</b>
<b>(2025):</b>	<b>\$553,950</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>

### I. Executive Summary:

The NAIC has several databases, such as the Financial Data Repository (FDR), Market Conduct Annual Statement (MCAS), and State-Based Systems (SBS), that contain different types of data and information. These databases are currently accessed separately, which requires regulators to use different links and tools for each one. This limitation makes it inefficient for regulators and makes it difficult for them to fully utilize NAIC’s available data. Further, the direct access required by these databases limits NAIC staff’s ability to modify table structures to improve the usefulness of specific datasets. For example, modifying the FDR table structures to create more efficient reporting dashboards is not possible without causing disruptions for those already using the existing structure. Thus, implementing such changes in each jurisdiction would be a time-consuming and highly inefficient process.

To address these issues and streamline regulatory data access, the NAIC developed a new enterprise data platform (EDP). The project’s first two phases focused on establishing a central data team to explore various technology options and structures. Subsequently, an initial EDP was built using core data from MCAS, FDR and other market conduct systems.

This fiscal request is for funding to continue work on the Data and Analytics pillar in the NAIC’s strategic plan *State Connected*. This third phase of the project aims to introduce the progress made to regulators and provide them with necessary training so they can fully utilize the system’s enhanced capabilities. It also seeks to expand the EDP by incorporating new datasets such as SBS, the System for Electronic Rates and Forms Filing (SERFF), Online Premium Tax for Insurance (OPT<sup>ins</sup>), and information from other databases. Furthermore, the central data team will continue to enhance the platform by incorporating



new tools to improve functionality and efficiency. To achieve this and offer ongoing support, two additional data engineers are being requested.

Regulators will be able to access data for research and analysis from a dedicated account using both familiar methods and a new business intelligence (BI) tool. These tools will simplify data discovery and analysis for regulators and internal staff. The new BI tool will allow many more users to search NAIC data on the platform to satisfy their own data access needs and independently perform analytics. This is important because many members are struggling to hire, develop, and retain employees with the technical skills needed to write code to discover and extract data. The new BI tool will reduce the need for jurisdictions to rely on technically skilled employees to find and provide data for regulatory analysis.

This phase will result in the creation of additional financial and market data models, all of which will provide more options for regulatory analysis. Further, NAIC development teams will collaborate with the core Enterprise Data Team to onboard new datasets to support the reporting needs of various NAIC application redesign initiatives. These new data models will ensure the most highly desired datasets are available to regulators and will be in a variety of formats to meet individual needs.

Platform architecture and processes will also be enhanced with data cataloging and data modeling capabilities and platform operational standards will be further matured. Additional data delivery methods, such as application programming interfaces (APIs), will be implemented, providing additional flexibility for regulators and NAIC development teams. The project will include significant training efforts to introduce regulators to these enhanced data models and self-service analytics tools. Enterprise data management standards, procedures, and best practices will be further matured, providing data with consistent characteristics that simplify user access to multiple datasets and significantly reduce the need to cleanse data before use.

## **II. Key Deliverables:**

- Roll out core Financial & Market Regulatory data models to regulators and internal NAIC staff.
- Establish ongoing enterprise data education for regulators.
- Enhance existing/onboard additional financial and market regulatory data.
- Transition of the Data Ad Hoc legacy model to the EDP.
- Implement a cloud-based enterprise data catalog.
- Enhance EDP architecture and tools.
- Operationalize platform support processes.
- Expand platform tool sets.
- Roll out a de-centralized EDP staffing model consisting of the existing centralized data team and adding distributed data team members in other business areas, specifically adding two FTE data engineers for Financial Regulatory Policy & Data and Market Regulatory Services Divisions.
- Engage and create software reader accounts for additional jurisdictions to enable ad hoc access to the financial and market regulatory datasets available in the EDP.

## **III. Initiative Benefits:**

Regulators will receive access to and training on new tools and capabilities available in the EDP, allowing them to more easily and efficiently identify and access NAIC data without the need to possess technical skills to find and analyze data. NAIC development teams will use cloud-based tools to create new data models for reporting as part of the NAIC's application redesign initiative. Both internal and external

stakeholders will benefit as additional data models become available on the platform and can be accessed via a wider array of data delivery methods.

#### **IV. Financial and Organizational Impact:**

This fiscal is requesting a budget of \$1,221,551 in 2024 and \$553,950 in 2025 for software; consulting; regulator and staff training and travel; and two new staff members to support data engineering for the Financial Regulatory Policy & Data and Market Regulatory Services Divisions. (see **Attachment I**).

While expenses related to consulting, training, and related travel are for 2024 only, software subscriptions and personnel costs will continue past 2024. The financial impact of this project is summarized below.

##### **Additional NAIC Staff**

In late 2019, the NAIC engaged an external consulting firm to assess data needs. The firm recommended the use of a logical data platform architecture and the creation of a roadmap outlining platform projects and capabilities. The roadmap included using a “hub and spokes” staffing model which establishes a small, centralized data team to build the data architecture, design, harden data best practices, and populate the first key datasets into the platform. Once the foundation of the data platform is established, the NAIC would then begin building de-centralized data teams, which would focus on maintaining and growing their business area’s data assets in the EDP.

To date, the centralized data team (hub) has populated and maintained the platform with key financial and market datasets. The financial and market regulation business areas continue to enhance and expand the data available on the platform. Two dedicated data engineers (spokes) will be added to continue this work without requiring significant resource time from the central data team or other technical resources. Though these engineers will reside in the business areas, the positions will work closely with the core data team and other technical resources to deliver the full value of available financial and market regulatory data. Dedicated data engineers within the business areas will allow NAIC to continue to enhance existing financial and market data and apply EDP innovations, delivering the promised benefits to NAIC's regulators and internal staff. The cost to acquire these additional resources is \$249,825 in 2024 and \$299,090 in 2025.

The centralized data team will continue to set platform standards and provide direction to the de-centralized teams as they onboard data to the platform, maintain, monitor, and enhance platform processes and tools, and partner with regulators who access the system.

##### **Consulting**

Consulting requests (\$489,840) include:

- Staff augmentation (\$288,000) for two software engineers to support the further enhancement of financial and market regulatory data and onboard new datasets to the platform.
- A total of four consultants (\$201,840) with expertise in technical writing, data modeling, automated data validation code development, and enterprise data catalog implementation.

##### **Software**

This fiscal requests \$219,166 in 2024 to purchase subscriptions for 1) a cloud-based Enterprise Data Catalog, 2) a data modeling tool, and 3) software to enhance NAIC’s ability to monitor and administer the EDP. These tools will further increase the reliability and flexibility of platform processes.

### **Training and Related Travel**

Regulator training on data and tools available in the EDP will be a key deliverable in Phase III. Staff training will also continue as new tools are acquired to enhance the platform. This fiscal requests a budget of \$246,720 to fund regulator travel to and meals during training sessions. Additionally, \$20,000 is requested to provide enterprise data catalog training for 10 NAIC staff members.

### **V. Risk Management Plan:**

Key risks associated with the implementation and adoption of new technology are summarized below along with associated mitigation plans.

<b>Risk</b>	<b>Mitigation Plan</b>
It is difficult to estimate costs for new cloud technology with a high level of confidence without previous experience with the tools as pricing for many is based on usage.	Mitigate by utilizing the tools under a trial period to obtain a better understanding of usage cost prior to purchase.
Regulator data needs and technology vary by jurisdiction.	Mitigate by building the platform using flexible processes and tools to allow for differences.
The EDP provides read only access to data. Regulators will continue to need to merge NAIC data with their own data.	Mitigate by providing additional options for regulators to download and blend data from different sources via a variety of formats and technologies.
As data assets grow, current NAIC staff needs more data modeling and engineering expertise to satisfy the regulators' data demands effectively. Even if current staff possessed the necessary knowledge, they lack the capacity to effectively handle the additional workload.	Hire resources with data engineering skills in both the Financial Regulatory Policy & Data and Market Regulatory Services Divisions. These additions will enable the NAIC to continuously improve the data models and reporting capabilities related to financial and market data on the EDP.

### **VI. Security Impact:**

Personally Identifiable Information (PII) and other sensitive data will be loaded to the data platform and managed through the data governance framework. Data governance standards, policies, and procedures will be implemented in the enterprise data catalog, significantly improving the handling of datasets by applying standardized processes and implementing the oversight of data stewardship. These additions will allow for the identification of data assets and asset attributes quickly and easily, such as the existence of PII data elements and confidentiality requirements.

PII data elements are present in several NAIC systems. However, the NAIC masks the sensitive data in all source systems in such a way that it is of little or no value to unauthorized intruders while still being usable by software or authorized personnel.

## 2024 Budget

### Enterprise Data Asset Management – Phase III Project Cost Analysis

**Anticipated Start Date: January 2024**

**Anticipated Completion Date: December 2024**

Description	2024 Total	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$249,825</b>	\$299,090	\$314,408
Consulting	<b>489,840</b>		
Software	<b>219,166</b>	254,860	262,200
Regulator Training and Travel	<b>246,720</b>		
NAIC Staff Training	<b>20,000</b>		
Total Expenses	<b>1,225,551</b>	553,950	576,608
Revenues Over (Under) Expenses	<b><u>(\$1,225,551)</u></b>	<b><u>(\$553,950)</u></b>	<b><u>(\$576,608)</u></b>

## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>EXPAND NAIC EXPERTISE – 2024</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE</b>
<b>NAIC STAFF SUPPORT:</b>	<b>ANDY BEAL, ACTING CHIEF EXECUTIVE OFFICER/CHIEF OPERATING OFFICER/CHIEF LEGAL OFFICER AND JIM WOODY, CHIEF FINANCIAL OFFICER</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>JANUARY 1, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>ONGOING</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$456,959</b>
<b>(2025):</b>	<b>\$766,176</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>

### I. Executive Summary

This fiscal outlines NAIC senior management’s proposal for the addition of four full-time employees (FTEs) to address urgent regulatory support needs. A summarized listing of the requested staff is as follows:

- One Property/Casualty Rate Modeling Junior Analyst to meet the increasing demand for rate reviews submitted by members. With 37 jurisdictions submitting rate review requests, current staff is struggling to keep up with the volume. The turnaround is currently 30-45 days compared to the 30-day (or less) requirement in most statutes. Demand for this service has grown over the past several years and is anticipated to further expand as additional jurisdictions utilize this service offering.
- One Cybersecurity Policy Advisor to support regulators engaging in both cybersecurity and cyber insurance-related policy discussions.
- One Data Analyst for the Center for Insurance Policy and Research (CIPR) will perform various key regulatory support functions such as assisting with catastrophic risk and related market insight. They will also develop interactive dashboards/tools for insurance regulators to track market trends and identify potential coverage issues.
- One Catastrophe Modeling Analyst for CIPR who will perform various key regulatory support functions such as assisting with the engagement of member jurisdictions and catastrophe model vendors which will include supporting the development of technical education and training materials on the mechanics of commercially available catastrophe models.

## **II. Expanded Position Descriptions and Justifications**

Each of these positions is critically important to ensure the NAIC maintains the ability to provide the level of service required to support insurance regulators.

### **Property/Casualty Rate Modeling Junior Analyst (Actuarial and AI Modeling Services)**

In 2018, the Executive (EX) Committee, at the Big Data (H) Working Group's request, directed NAIC management to research the skills and resources needed to assist members with the coordination of their reviews of predictive models. This research led NAIC senior management to recommend a gradual increase of expertise at the NAIC to aid regulatory review of Property/Casualty rate models.

There are now 37 member jurisdictions with signed Rate Review Support Services Agreements. These agreements permit participants to request technical rate reviews and grants access to the NAIC's Property/Casualty (P/C) Shared Model Database supported by the Actuarial and AI Modeling Services Division.

Since its inception in May 2020, the NAIC rate model review team has produced 376 rate filing reports. The volume of requests has been steadily increasing with the number of jurisdictions requesting rate reviews increasing from 10 in 2020 to 37 in 2023 and demand is anticipated to continue to grow.

The rate review process takes up to two weeks to initially draft each review with additional time often needed to re-review the proposal after the jurisdiction sends up to three rounds of objections, to which the company responds.

To meet statutory deadlines as well as accommodate an ever-changing business environment, jurisdictions need to have the reviews turned around as quickly as possible. Most jurisdictions have statutes which designate that unless a response is received within a specific timeframe (often 30 days from the original submission date), the rate request is automatically approved. At the current staffing level, the NAIC rate model review team can rarely meet the 30-day deadline. As the team operates under a 45-day turnaround schedule, the growing number of review requests only extends the turnaround timeline further.

A junior analyst is needed to support the increase in technical model review requests. The responsibilities of the analyst will include:

- Drafting technical actuarial reports and providing guidance to regulators about insurance company filed rate models.
- Evaluating content provided by insurance companies and commenting on whether the filing provides appropriate actuarial support for the rates based on the filed model.
- Reviewing company objection responses for completeness against NAIC Technical Report Guidelines.
- Identifying any additional follow-up objections for potential regulatory action.
- Completing final reports once all objections have received a satisfactory response.
- Drafting final executive summaries and posting work to the P/C Shared Model Database.
- Participating in team peer reviews of work products.

Regulators are increasingly relying on NAIC to comply with their review process obligations and NAIC's ability to provide these services will continue to be constrained if additional resources are not approved.

### **Cyber Security Support (Property & Casualty Regulatory Services)**

For the past several years, NAIC staff have aided insurance departments in providing training and supporting updates to regulatory publications to enhance the regulatory framework as it pertains to addressing cybersecurity risks. In 2022, the NAIC further demonstrated its commitment to addressing cybersecurity risks by establishing the Cybersecurity Insurance (H) Working Group to, among other tasks, monitor cybersecurity trends, oversee the development of cybersecurity event response guidance, and promote communication across insurance departments.

The Innovation Cybersecurity and Technology (H) and Property and Casualty Insurance (C) Committees also have charges related to cybersecurity issues arising from insurers offering insurance protections and in supporting responses to cybersecurity events at both insurance departments and within the industry. It is anticipated this role will play a critical part in supporting these charges.

The position of Cybersecurity Policy Advisory will work in support of regulators engaging in both cybersecurity and cyber insurance-related policy discussions. The new position will also support numerous other activities such as:

- Researching cybersecurity and cyber insurance topics in the business of insurance.
- Evaluating and recommending updates to existing regulator models, frameworks, and handbooks related to both cybersecurity and cyber insurance, including but not limited to the *Financial Condition Examiners Handbook* cybersecurity related guidance and to the NAIC's annual *Report on the Cyber Insurance Market*.
- Assisting states in promoting and supporting communication across insurance departments regarding cybersecurity risks and events.
- Supporting and facilitating applicable tabletop exercises.
- Assessing the adequacy of data collection and regulatory software tools and resources needed for regulators to appropriately monitor cybersecurity and cyber insurance-related trends in the insurance marketplace.
- Assisting in the review of federal and international proposals related to cyber insurance.
- Serving as a resource for NAIC's internal and external communications team on cyber insurance issues.
- Assisting regulators in monitoring the cyber insurance marketplace.
- Providing education and training via webinars or other formats to assist regulators in understanding industry trends and responding to insurer breaches and remediation plans.

### **Catastrophe Modeling Center of Excellence (CIPR)**

In 2023, the NAIC established a Catastrophe Modeling Center of Excellence (COE) as a centralized resource to provide the NAIC and insurance regulators with the necessary technical expertise, tools, and information to enable proactive regulation in support of stable insurance markets.

While the COE's efforts have been well received and enjoyed success in achieving many of its original objectives, several regulatory pressures and external pressures impacting insurance markets point to a need for more work around climate and catastrophic risk. Property insurance affordability and availability concerns have become mainstream, exacerbating the immediacy and criticality for regulatory response. Lending institutions, the real estate industry, and some local governments have expressed increasing concern regarding the impact of a lack of insurance availability on the broader economy.

In support of the growing need for information in this area, a data call to help insurance regulators collect data from insurers to better understand property markets, coverages, and protection gaps

was announced at the NAIC 2023 Summer National Meeting. The goal is to develop a long-term, robust data collection strategy to help regulators more nimbly respond to inquiries related to their property markets versus a one-time data call. Additionally, enhancements to examination handbooks related to catastrophe and climate risks have been exposed for public comment and the solvency workstream of the Climate and Resiliency (EX) Task Force is evaluating its approach on climate scenario testing, with education and training playing a critical role in its deliberations as well as in the implementation of the proposed handbook enhancements.

Through consultation with NAIC members and staff, several avenues have been identified to support insurance departments on goals related to catastrophic risk and resiliency. Specifically, data analytics; regulator and consumer communications; climate scenarios; continued catastrophic loss related education; and heightened mitigation and resiliency efforts. Taking on these initiatives, in addition to the work already underway, will require more resources. In response, this fiscal impact statement requests funding for two additional staff as detailed below:

- Data Analyst to perform activities such as:
  - Assisting in catastrophic risk and market insight development, including identifying emerging trends that may impact property coverage affordability and availability as well as consumer risk awareness.
  - Developing interactive dashboards and tools for insurance regulators to track insurance market trends and potential coverage issues.
  - Assisting with analysis related to mitigation and resiliency initiatives.
  - Coordinating with CIPR staff to develop research regarding effective consumer education and outreach.
  - Working with the Catastrophe Modeling Analyst in conjunction with the research and academic community on climate scenario analysis.
- Catastrophe Modeling Analyst to perform activities such as:
  - Assisting with the engagement of members and catastrophe model vendors.
  - Supporting development of technical education and training materials on the mechanics of commercial catastrophe models and the treatment of perils and risk exposures tailored to the needs of regulators.
  - Developing an understanding of how the catastrophe models work and distilling this technical information to be provided to regulators.
  - Assisting with applied research utilizing catastrophe modeling output for various perils and issues.

### **III. Key Deliverables**

The new full-time positions are expected to be hired and brought on board throughout 2024.

### **IV. Financial and Organizational Impact**

The financial impact of this project, consisting of salaries and benefits, will be \$456,959 in 2024 and \$766,176 in 2025 (see **Attachment I**).

There will be an operational impact to bringing these new positions on board. The People Operations and Engagement Division will be needed to help the various departments find and hire the best candidates for each position.



## **V. Risk Management Plan**

There is a risk that qualified candidates may be hard to find and resulting benefits to the membership and operations of the NAIC could be delayed until the positions have been filled and staff are up to speed on their processes and responsibilities. This risk will be mitigated to the extent possible by working with the People Operations and Engagement Division following approval of this fiscal to begin the search process.

## **IV. Security Impact**

All positions will need to abide by NAIC employment policies and procedures. By nature of the work, the positions may need to utilize confidential information to perform their duties. As such, the positions will be subject to the NAIC's confidentiality requirements. No other security risks are incurred with this request.

## 2024 Budget

### Expand NAIC Expertise - 2024 Project Cost Analysis

**Anticipated Start Date: Throughout 2024**

**Anticipated Completion Date: Ongoing**

Description	2024 Total	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$456,959</b>	\$766,176	\$805,078
Total Expenses	<b>456,959</b>	766,176	805,078
Revenues Over (Under) Expenses	<b><u>(\$456,959)</u></b>	<b><u>(\$766,176)</u></b>	<b><u>(\$805,078)</u></b>

## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>NAIC EDUCATION &amp; TRAINING MODERNIZATION PROJECT</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>COMMISSIONER SHARON P. CLARK (KY)</b>
<b>NAIC STAFF SUPPORT:</b>	<b>CHRISTIAN CARTER, DIRECTOR—MEMBER SERVICES AND ENGAGEMENT</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>JANUARY 1, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>DECEMBER 31, 2025</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$529,985</b>
<b>(2025):</b>	<b>\$415,176</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>

### I. Executive Summary:

The NAIC is charged with many regulatory support functions, one of which is to act as a central resource for NAIC members. Being a central resource includes training members and their staff on critical regulatory practices and procedures. Regulators recognize the benefits of having centralized and standardized training and professional development programs – benefits that include having quick access to training and materials that are relevant across jurisdictional lines and provide a potential for a faster onboarding of new regulatory staff.

The NAIC first offered its core training curriculum in the 1980s and expanded into the Insurance Regulator Professional Designation Program (designation program) in 2006. With humble beginnings, ten regulators took the required training programs and achieved their NAIC professional designations. Today, participation in the designation program has grown to unprecedented levels with over 3,600 regulators currently participating and 1,969 designations have been awarded. However, resource limitations have restricted the ability to grow to meet demand in attendance and development of content. These resource constraints only permit one person to support the program. While demand for training and professional designations related to insurance regulation has surged far beyond current capacities.

Currently, the designation program only offers four designations. Based on membership needs, this initiative will greatly expand the designation program by providing increased NAIC Professional Designation offerings and enhanced training specific by job title or function. In addition to expanded training offerings and professional designation options, it will also modernize the delivery for those

offerings, allowing for ad-hoc, on-demand training that is on par with other professional support organizations.

This visionary expansion paves the way for the potential inclusion of up to 40 distinct professional designation options, reflecting monumental strides demonstrates commitment to NAIC members so they can continue to thrive in supporting a healthy insurance market.

In addition to being able to meet the volume-based demands, the need for training offerings that are targeted at regulatory job roles, as well as modernized delivery methods, is now more critical than ever. Effective and efficient targeted training ensures members have the knowledge and tools they need to meet their mission - that of being an effective regulator to support a fair, competitive, and healthy insurance market. Effective training has become an important focus, as articulated in *State Connected*, NAIC's strategic plan.

## **II. Key Deliverables:**

Key deliverables of the project are as follows:

- Significantly expands NAIC training content targeted toward regulatory job roles and improve accessibility in a modular, on-demand format.
- Expand professional designation offerings by job role, tailoring the NAIC Professional Designation Program to most regulatory staff functions.
- Create a regulator training hub for shared regulator-built training content, enabling regulators to share their subject-matter expertise with other insurance departments.

Optimize technology to include the assessment of an enhanced learning management system (LMS) to expand accessibility features for all learners.

## **III. Initiative Benefits:**

A revamped training curriculum will empower regulators with the essential knowledge and skills required for effective execution of their regulatory responsibilities. Enhanced delivery methods will provide regulators with convenient access to training material in a flexible and modular format, catering to the demands of contemporary participant schedules. This will ultimately result in increased member satisfaction with NAIC training and professional development offerings.

Initiating this modernization endeavor entails an initial assessment of regulatory roles and the associated requisite competencies. Subsequently, training content will be tailored to match these identified competencies, creating specialized training trajectories for each job role. Furthermore, the majority, if not all, of these specialized training paths will encompass the option to obtain a NAIC Insurance Regulator Professional Designation.

This initiative will also expand the NAIC Insurance Regulator Professional Designation program to additional regulatory levels. The initial round of expansion is expected to increase the program from four designation levels to designation options for 12 regulatory roles. Each regulatory role will potentially offer two to four levels of expertise, resulting in up to 40 designation options.

#### **IV. Financial and Organizational Impact:**

The financial impact of this project, consisting of two new full-time employees, two temporary contractors, and the cost to redesign the Education & Training public website will be \$529,985 in 2024 and \$415,176 in 2025 (see **Attachment I**).

Two additional staff are required to achieve and maintain the project's deliverables: a Senior Manager of Training Programs & Services and a Designation Program Coordinator.

- The Senior Manager of Training Programs & Services will manage NAIC training programs and services as one uniform team. This position will oversee course administration, technology training, and training specialist functions.
- The Designation Program Coordinator will provide operational support for the NAIC Insurance Regulator Professional Designation Program.

Additionally, two temporary contractors are needed for staff augmentation during the project. This will include a contract instructional designer to assist with the day-to-day operations as well as project work, and a contract course administrator to provide operational support.

There will be an ongoing financial impact to bring these new positions on board and to support the program infrastructure. It is anticipated that the expenditures to design and implement the new curriculum, additional training paths, and professional designation levels will be completed by the end of 2025.

The current LMS will be replaced with a platform that includes advanced capabilities resulting in a lower annual cost than the current system, generating an expected annual net savings of \$8,000.

#### **V. Risk Management Plan:**

There is a risk that qualified candidates may be hard to find. The resulting benefits to the membership and operations of the NAIC could be delayed until the positions have been filled and staff are up to speed on their processes and responsibilities. This risk will be mitigated to the extent possible by working with the People Operations and Engagement Division following approval of this fiscal to begin the search process.

#### **VI. Security Impact:**

All positions will need to abide by NAIC employment policies and procedures. By nature of the work, the positions may need to utilize confidential information to perform their duties. As such, the positions will be subject to the NAIC's confidentiality requirements. No other security risks will be incurred with this project.

**2024 Budget**

**NAIC Education & Training Modernization Project  
Project Cost Analysis**

**Anticipated Start Date: January 2024**

**Anticipated Completion Date: December 2025**

Description	<b>2024 Total</b>	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$223,586</b>	\$235,112	\$247,230
Consulting	<b>188,064</b>	188,064	
Software, LMS Cost Differential	<b>(2,665)</b>	(8,000)	(8,000)
Training	<b>39,000</b>		
Web redesign	<b>82,000</b>		
Total Expenses	<b>529,985</b>	415,176	239,230
Revenues Over (Under) Expenses	<b><u>(\$529,985)</u></b>	<b><u>(\$415,176)</u></b>	<b><u>(\$239,230)</u></b>

## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>IT VISION SYSTEMS ENHANCEMENTS –2024</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>VALUATION OF SECURITIES (E) TASK FORCE</b>
<b>NAIC STAFF SUPPORT:</b>	<b>Jeff Johnston, Managing Director–Financial Regulatory Affairs</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>JANUARY 1, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>DECEMBER 31, 2026</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$353,659</b>
<b>(2025):</b>	<b>\$577,237</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$1,615,573</b>
<b>(2025):</b>	<b>\$1,171,717</b>

### I. Executive Summary:

This proposal spans a three-year period from 2024 through 2026 and combines several projects into one program proposal. The projects included are as follows:

- VISION Technology Upgrade** — This project is to perform significant infrastructure upgrades to improve the ability to support the Securities Valuation Office (SVO) and enhance VISION (the system in which securities are submitted for review) for the foreseeable future. Rather than upgrading existing tools and components, the proposed approach takes two monolithic applications, VISION and Automated Validation Service (AVS+), and breaks them into smaller pieces, which allows teams to modernize the specific applications to utilize best practice frameworks and deploy them to the desired end jurisdiction hosting platform. Without segregation of the major system platforms into smaller operating components, upgrades are cumbersome and technically inefficient for upgrades or enhancements. By separating the functionality into smaller pieces, development teams can make specific requested enhancements without the risk of adversely impacting other system components. The result will be improvements overall but specifically in these areas:
  - Faster Performance** – Shifting application processing to the user’s web browser will result in faster performance when utilizing the newer applications.
  - Enhanced Security** – Enhanced security to system data and server protections will be gained by using a modern single sign-on platform and integration of modern coding framework.

- **Modularized Application Pieces** – Breaking these large systems into smaller pieces will generate less impact from development and testing, resulting in faster development and release schedules.
- **Talent Acquisition** – Modernizing these platforms will better align the systems with the skills of today’s workforce, making finding and retaining talent much easier as it is increasingly difficult to secure talent with experience in the existing applications’ platforms and frameworks.
- **AVS+ /VISION Securities Usage Fees** — This project, as identified in *State Connected* as State Connected (SC) 2.3.2, will create a system infrastructure that will permit a new fee structure to be implemented for AVS+ and most security filings in VISION. It is anticipated that a flat rate structure will be applied to both AVS subscribers and VISION users.
- **Multiple Issuer and Security Identifiers (MISI)** — This project, based on an industry standard reference service, is identified as SC 2.3.3, and incorporates additional issuer and security identifiers with alias identifiers and imports relevant history into VISION and AVS+, as needed. A security submitted will then be able to be cross-referenced with necessary data retrieved for processing NAIC Designation, NAIC Designation Category, pricing, and organizational structure.
- **Filing History Data for VISION** — This This project, identified as SC 3.8, will create the ability for VISION to retain history for submitted securities. This will help ensure analysts have access to historical records, submissions, and other pertinent notes needed to complete the current year’s review. The ability to retain historical records will also benefit insurers as requests for supplemental material should be reduced.
- **Filing Issuer/Issue Detail (Document Management)** — This This project, identified as SC 3.9, will work in conjunction with SC 3.8 but will also provide a new hierarchy for documents stored in the system, thus making it easier for analysts to find and refer to the appropriate documents.

It will take many years and additional resources for the existing VISION development team to complete these projects. Accordingly, this fiscal requests funding for three software engineers and the use of consultants to complete this proposal as detailed in the financial and organizational impact section below.

## II. Key Deliverables:

As this is a multi-year project with several interim projects, the projected timetable for completion is as follows:

- **VISION Technology Upgrades** – All upgrades are anticipated to be completed by December 2026.
- **AVS+ /VISION Securities Usage Fees (SC 2.3.2)** – If approved by the membership, the new billing model could be utilized for the 2026 calendar year filing/reporting season.
- **Final Phase of MISI (SC 2.3.3)** – The ability to utilize the benefits of MISI is anticipated to be completed by December 2024. While unknown at this time, additional development may be considered to further expand the use of identifiers for security identification. However, until the benefits of SC 2.3.3 are fully realized, additional development plans nor funding are including in this fiscal.



- **Filing History & Document Management (SC 3.8 & 3.9)** – The enhanced capabilities associated with these projects will be completed by December 2026.

### **III. Initiative Benefits:**

Technology upgrades will position VISION to make future system enhancements in a faster, more agile method. As the systems will be segregated, updates will be of higher quality and will require less patching due to the elimination of potential adverse impact to subsystems.

The ability to modify the fee structure will result in the capability to assess costs to current VISION and AVS+ users on a more even, one-time basis. This will result in users paying a flat rate structure for access and designations thus greatly reducing the invoicing and payment processes by both the NAIC and the user. Additionally, the new fee structure may reduce the high volume of year-end submissions and resulting backlog, providing analysts with a more balanced workload.

Another benefit is the ability to assess the full history of filing data in VISION and establishing a new hierarchy for documents stored in the system. This will greatly improve efficiency of reviews and will save analysts and companies from having to request or submit redundancy documentation for each year's review.

### **IV. Financial and Organizational Impact:**

This fiscal requests a budget of \$1,969,232 in 2024 and \$1,748,954 in 2025 for software, consulting, and three new staff members to support the enhancements to the VISION platform (see **Attachment I**).

While expenses related to consulting are expected to be concluded by 2026, applicable amortization as well as software and personnel costs will continue past 2026. The financial impact of this project is summarized below.

#### **Additional NAIC Staff**

In addition to external consulting resources, three full-time positions are needed to support this significant and fundamental rewrite of many of the VISION systems. These positions will consist of software engineers that will assist in development and ongoing support of the new platform. These positions are expected to cost \$353,659 in 2024 and \$438,973 in 2025 and will likely be hired in the first half of 2024.

#### **Software**

Building on the success experienced in the SERFF application, a similar low-code technology will be utilized for VISION enhancements, which will allow for greater flexibility in development and ongoing maintenance support. While GAAP requires initial capitalization of certain software used for development purposes, once go-live occurs, annual software costs of approximately \$42,000 will be expensed.

#### **Consulting**

This fiscal requests a total of \$3,918,431 in capitalized consulting to occur from 2024 through the end of the project in 2026. The timing of the expenditures is tied directly to the phases as detailed in the project summary. These phases must occur in a sequential manner. Delays in interim deliverables will impact subsequent development plans. Amortization expense (for a phase's associated capital expenditure) is anticipated to begin after the completion of each phase.

## **V. Risk Management Plan:**

**Requirements:** While high-level analysis has been completed for the projects included in this fiscal, most of the initiatives in this three-year program do not have complete business requirements. These requirements will be vetted at the appropriate intervals within the program. To address this risk, development teams will hold periodic status meetings with business areas to ensure solidified business requirements are articulated before and throughout the build process.

**Scope:** There is a balance of projects in the program and managing scope will be key to completing all projects within the three-year span. Allowing scope to expand significantly on any one project may put others at risk. There are also dependencies between projects so resources must be managed across the entire program. Similar to the risk noted above regarding requirements, developers will meet periodically with the business areas, keeping all parties apprised of key milestones.

**Technology Upgrade:** There is some flexibility built into the approach for this project, assuming other projects might be prioritized ahead of this work during the three-year timeframe. Care will be taken when re-prioritizing other projects ahead of this one as it is a large body of work.

**Resources:** Some of VISION's underlying technology is older so it can take longer to find consultants with experience with the existing technology infrastructure. There is a risk that qualified candidates may be hard to find. The resulting benefits to the membership and operations of the NAIC could be delayed until the positions have been filled and staff are up to speed on their processes and responsibilities. This risk will be mitigated to the extent possible by working with the People Operations and Engagement Division immediately following approval of this fiscal to begin the search process as well as defining the requirements for the consultants.

## **VI. Security Impact:**

Upgrading the older legacy systems will allow development teams to more quickly address and resolve security vulnerabilities, should they occur. The VISION system collects and stores non-public information and data that must be treated with the same level of care as Personal Identifiable Information (PII). There is no additional data containing PII or other confidential information that is a part of these projects.

## 2024 Budget

**IT VISION System Enhancements - 2024  
Project Cost Analysis**

**Anticipated Start Date: January 1, 2024**

**Anticipated Completion Date: December 2026**

Description	2024 Total	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$353,659</b>	\$438,973	\$457,500
Software		32,344	41,914
Amortization		105,920	280,950
Total Expenses	<b>353,659</b>	577,237	780,364
Revenues Over (Under) Expenses	<b><u>(\$353,659)</u></b>	<b><u>(\$577,237)</u></b>	<b><u>(\$780,364)</u></b>
Capital Purchases:			
Software	<b>\$27,637</b>	\$6,470	
Consulting	<b>1,587,936</b>	1,165,247	\$1,165,248
Total Capital Purchases	<b><u>\$1,615,573</u></b>	<b><u>\$1,171,717</u></b>	<b><u>\$1,165,248</u></b>

## Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>SEPTEMBER 1, 2023</b>
<b>NAME OF INITIATIVE:</b>	<b>UNIFORM CERTIFICATE OF AUTHORITY APPLICATION (UCAA) – PHASE II</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>NATIONAL TREATMENT AND COORDINATION (E) WORKING GROUP</b>
<b>NAIC STAFF SUPPORT:</b>	<b>DAN DAVELINE, DIRECTOR–FINANCIAL REGULATORY SERVICES</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>MARCH 18, 2024</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>FEBRUARY 28, 2025</b>
<b>TOTAL REVENUE EXPECTED (2024):</b>	<b>\$0</b>
<b>(2025):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2024):</b>	<b>\$129,717</b>
<b>(2025):</b>	<b>\$620,396</b>
<b>TOTAL CAPITAL REQUESTED (2024):</b>	<b>\$3,206,000</b>
<b>(2025):</b>	<b>\$201,000</b>

### I. Executive Summary:

The NAIC allows insurers to file certain licensing applications in numerous jurisdictions via its Uniform Certificate of Authority Application (UCAA) platform. Currently, insurers can submit expansion applications and foreign corporate amendments to jurisdictions accepting the uniform application, eliminating the need to submit multiple applications, in varying formats, to multiple jurisdictions. However, this platform is nearly 20 years old and is limited in its functionality as well as the licensing applications and forms it can electronically process. Consequently, many company licensing applications and forms are submitted and processed manually. Manual submission significantly increases the turnaround times for application review/acceptance and requires significant manual intervention by both insurers submitting the applications and the regulators who review them. Seeing a need to enhance marketplace efficiency, the membership approved a project to automate the UCAA process through an electronic interface.

The first phase of the UCAA redesign initiative delivered the ability for companies to electronically submit Primary (initial) and Redomestication applications through a new cloud-based product. It also provided regulators with a portal to review these submissions and communicate with applicant companies. Feedback from both regulators and industry has been very positive as turnaround times to review applications have been significantly reduced and with the use of logic built into the system, submission errors have been nearly eliminated. The intuitive nature of the new application allows applicants to easily navigate, quickly complete forms, attach documents, and track the progress of the entire application

process. The regulator interface allows access to all the relevant information in one location and provides a unique communication portal with submitting companies.

Building on the success from phase I, this fiscal requests funding to continue to incorporate other UCAA products into the new cloud-based platform, which will result in the eventual replacement of the legacy UCAA system. Phase II will expand offerings deployed in phase I including 1) corporate expansions, 2) domestic corporate amendments, and 3) foreign corporate amendments.

This platform will result in significant efficiencies for industry but will result in substantial expense for the NAIC to build and maintain the new cloud-based platform. To partially offset these expenses, a filing fee will be considered as the system nears deployment. This anticipated fee will be modest compared to the time and labor involved to currently submit filings.

## **II. Key Deliverables:**

Key deliverables for this initiative include expanding offerings to include:

- Corporate expansion applications.
- Corporate amendment applications for domestic companies.
- Corporate amendment applications for foreign companies.

Success will be measured by the ability to facilitate electronic submission of these company licensing filings via the new application. Replacing the current cumbersome manual process and promoting uniformity among jurisdictions for domestic and foreign amendments is the primary objective of this phase. The new portal will provide a modernized platform that will 1) provide a more intuitive and easier to use interface and 2) reduce the time to market for filings requiring preapproval from regulators.

Work on functionality described in this request will begin in March 2024, with a scheduled completion date of February 2025. The remaining deliverables of the UCAA redesign initiative, which includes Acquisitions - Forms A & E, Biographical Affidavit Application, and the Biographical database, are planned for future phases with a separate project proposal presented at a later date.

## **III. Initiative Benefits:**

The features of this application will provide regulators with a central location for accessing and reviewing submissions, ensuring appropriate record retention, and communicating via the portal with the applicant companies and other related stakeholders throughout the review process. Tasks can easily be assigned, monitored, and reported on for accreditation purposes. In short, this application provides regulators with an all-in-one tool for UCAA filings and provides a much more efficient mechanism for completing reviews and providing consideration for approval.

Companies will no longer have to utilize numerous, differing paper applications nor use of numerous jurisdiction portals to upload applications. With this new portal, companies will be able to submit one application to all participating jurisdictions. In addition, required changes to applications are greatly simplified as the system will permit partial changes which are immediately submitted for regulatory review. Regulators will have access to near real-time monitoring and can provide feedback to industry through the UCAA portal – all of which provides significant efficiencies for industry and will enable the ability to reduce the time to review/consider related applications.

#### **IV. Financial and Organizational Impact:**

The financial impact of this proposal is as follows.

##### **Operating Expenses**

- Salaries and benefits for a new full-time employee to supplement the NAIC development team. This position will be a senior developer to help develop and support the new scope of the UCAA product. In addition, as the forms are converted from the legacy system, additional ongoing support will be required. It is expected this new employee will play a significant role in this effort. The expense associated with this new position is anticipated to be \$129,717 in 2024 with a start date of March 2024.
- Software subscription costs will be incurred in direct proportion to the number of applications submitted as fees are associated with authenticating electronic signatures on applications. These fees are estimated at \$127,240 starting in 2025.
- Amortization of incurred capital costs is anticipated to begin immediately following go-live of this phase and has an annual expected expense of \$330,780 beginning in 2025.

##### **Capital Consulting**

Consulting services of \$3,407,000 will be used to engage a third-party vendor for development and implementation of these enhanced capabilities. Part of this funding will also be used to augment the development team with additional resources for creating automated testing throughout the development process.

See **Attachment I** for additional information.

#### **V. Risk Management Plan:**

The expected cost to develop is based on detailed discussions with a third-party provider. The actual cost and time to develop may vary as the development strategies are finalized. To mitigate this risk, NAIC staff will work closely with the third-party development team before and during development to ensure system design requirements are known and addressed. In addition, the team will hold regular status meetings to ensure key milestones are met.

#### **VI. Security Impact:**

This initiative is following NAIC security and coding standards. These new forms should not introduce any new security concerns that were not addressed by Phase I.

The new employee will need to abide by NAIC employment policies and procedures. By nature of the work, the positions may need to utilize confidential information to perform their duties. As such, the positions will be subject to the NAIC's confidentiality requirements. No other security risks are incurred with this request.

## 2024 Budget

### Uniform Certificate of Authority Application (UCAA) - Phase II Project Cost Analysis

**Anticipated Start Date: March 2024**  
**Anticipated Completion Date: February 2025**

Description	2024 Total	2025 Total	2026 Total
Expenses:			
Salary and Benefits	<b>\$129,717</b>	162,376	170,676
Software		127,240	169,282
Amortization		330,780	396,936
Total Expenses	<b>129,717</b>	620,396	736,894
Revenues Over (Under) Expenses	<b><u>(\$129,717)</u></b>	<b><u>(\$620,396)</u></b>	<b><u>(\$736,894)</u></b>
Capital Purchases:			
Consulting	<b>\$3,206,000</b>	\$201,000	
Total Capital Purchases	<b><u>\$3,206,000</u></b>	<b><u>\$201,000</u></b>	<b><u>\$0</u></b>

**2024 BUDGET  
UNRESTRICTED NET ASSETS (UNA)**

	<b>Total UNA</b>	<b>Regulatory Modernization Fund (1)</b>	<b>Available UNA</b>
2018 Ending Balance	\$130,987,653	\$1,842,346	\$129,145,307
2019 Revenues Over/(Under) Expenses	13,949,277		
Defined Benefit Plan Adjustment (FAS 158) (2)	4,472,258		
2019 Ending Balance	149,409,188	\$2,137,890	\$147,271,298
2020 Revenues Over/(Under) Expenses	16,942,908		
Defined Benefit Plan Adjustment (FAS 158) (2)	344,954		
2020 Ending Balance	166,697,050	\$2,377,511	\$164,319,539
2021 Revenues Over/(Under) Expenses	15,153,223		
Defined Benefit Plan Adjustment (FAS 158) (2)	3,596,963		
2021 Ending Balance	185,447,236	\$2,669,398	\$182,777,838
2022 Revenues Over/(Under) Expenses	(16,717,823)		
Defined Benefit Plan Adjustment (FAS 158) (2)	192,874		
2022 Ending Balance	168,922,287	\$2,498,819	\$166,423,468
2023 Projected Revenues Over/(Under) Expenses	8,998,418		
2023 Project Ending Balance	177,920,705	\$2,668,811	\$175,251,894
2024 Revenues Over/(Under) Expenses	2,314,418		
2024 Ending Balance Before Fiscal Impact Statements	180,235,123	\$2,703,527	\$177,531,596
2024 Fiscal Impact Statements	(3,384,927)		
2024 Ending Balance After Fiscal Impact Statements	\$176,850,196	\$2,652,753	\$174,197,443



## UNRESTRICTED NET ASSETS

(1) The NAIC instituted the Regulatory Modernization and Initiatives Fund during the 2005 budget process to manage spending beyond the budget by establishing spending guidelines for new initiatives and proposals submitted subsequent to the annual budget presentation. The fund balance was established at 1.5% of projected consolidated net assets for that year.

(2) Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans requires plan sponsors to reflect the funded status of their defined benefit plans on a company balance sheet on a projected benefit obligation basis. This is accomplished through an adjustment to unallocated net assets, or net equity of the NAIC, and results from the actual performance of the NAIC's defined benefit plan compared to assumed performance of investments, discount rates, and covered participants.

The NAIC froze the Defined Benefit Plan to new entrants on January 1, 2000, and accrued benefits for all active employees were frozen as of December 31, 2012. In 2017, the NAIC Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years.

Favorable market performance, a \$1.3 million contribution, and updated plan assumptions decreased the plan obligation in 2019. At December 31, 2019, SFAS 158 adjustments decreased the liability \$3.0 million and increased net assets \$4.5 million.

The SFAS 158 adjustment at December 31, 2020, decreased the liability by \$597,900 and increased net assets by \$345,000. These adjustments were the result of a contribution of \$927,000 and plan assumption updates partially offset by the portfolio's positive financial performance.

Higher than expected return on assets, updated plan assumptions, and a \$0.7 million contribution decreased the plan obligation at the December 31, 2021 measurement date. SFAS adjustments increased the asset \$2.6 million and increased net assets \$3.6 million.

The plan experienced an overall decrease in plan obligation at the December 21, 2022 measurement date as a result of accelerated loss recognition in prior years and updated plan assumptions, partially offset by lower than expected return on assets. SFAS adjustments decreased the asset \$499,074 and increased net assets \$0.2 million.

### Operating Reserve Policy

On August 10, 2022, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee adopted an operating reserve policy based on a report from the independent consulting firm hired to review NAIC's operating reserves, which established a new methodology. The recommendation was based on analysis of NAIC's working capital and strategic needs as well as current and future identified risks. NAIC's operating reserve is currently established with a minimum target reserve of \$179.8 million. Prior to August 10, 2022, the NAIC's operating reserve was measured as a target range - 83.4% to 108.2% - based on next year's operating expenses.