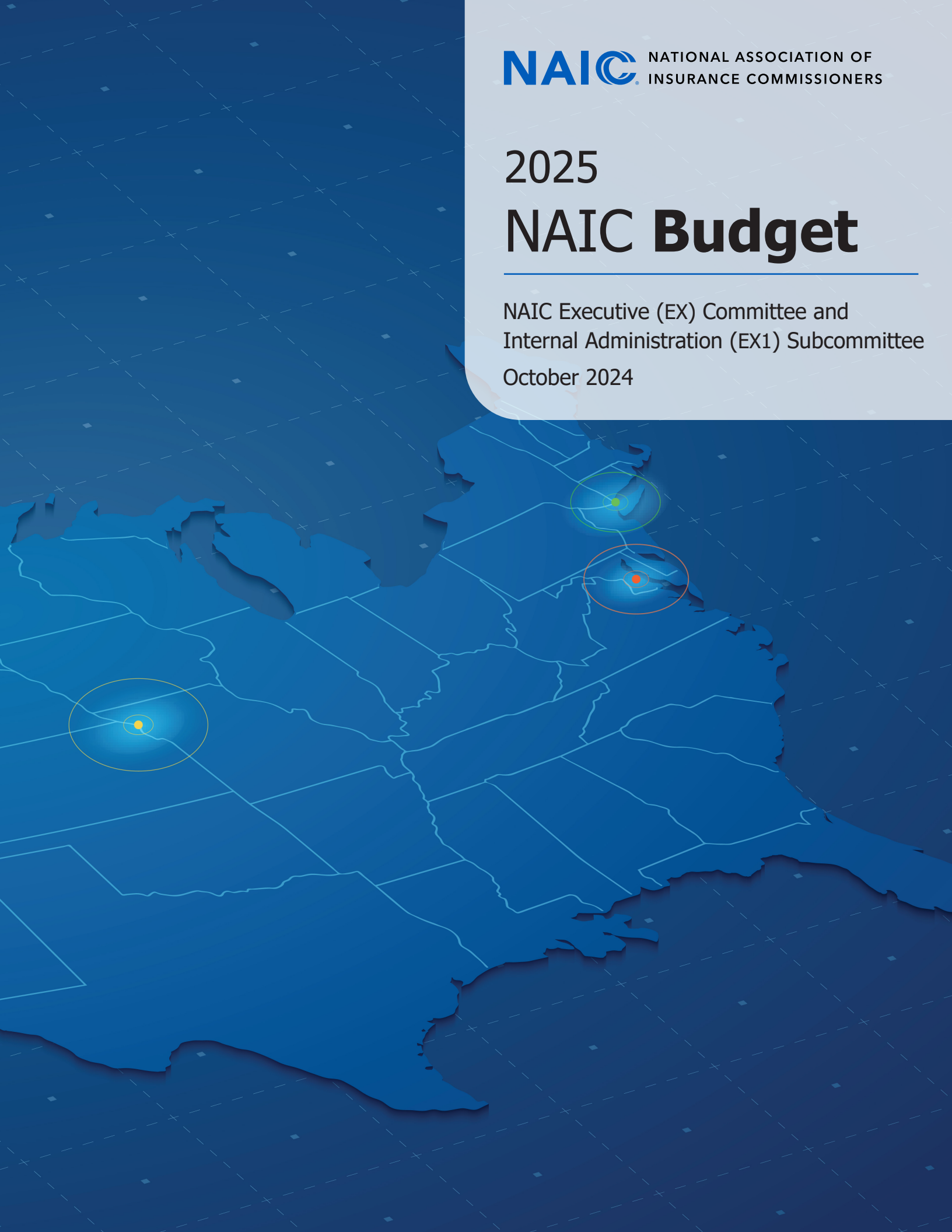


2025

NAIC Budget

NAIC Executive (EX) Committee and
Internal Administration (EX1) Subcommittee

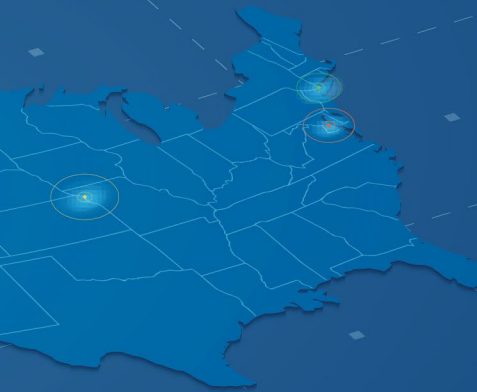
October 2024



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.



2025 NAIC Budget

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NOTE: The NAIC Annual Report, including audited financial statements, is located at <https://content.naic.org/about>

Executive Summary

NAIC 2025 Budget

The NAIC’s mission is to empower its members—insurance regulators—in their efforts to protect consumers and maintain fair, competitive insurance markets. In line with this mission, the services and products provided by the NAIC are extensive and multifaceted, catering to members, the public, and insurers alike. Every function and operation within the NAIC is guided by two primary objectives: 1) to support state-based regulation, ensuring local oversight remains robust and responsive to the unique needs of each jurisdiction and 2) to assist regulators in navigating the complexities of an evolving insurance landscape.

NAIC’s Focus: Members and Mission

Members are state insurance regulators from diverse backgrounds—but are united in their shared commitment to set standards and ensure fair, competitive, and healthy insurance markets to protect consumers. The singular mission of the NAIC is to support its members in these noble causes.

By staying true to these guiding principles, the NAIC not only fortifies the foundation of state-based regulation but also champions innovation and adaptability. Looking toward the future, the NAIC remains steadfast in its commitment to fostering a regulatory environment that balances consumer protection with market growth, embraces technological advancements, and promotes collaboration among all stakeholders.

Through its members, the NAIC stands as a beacon of leadership and stability, ensuring that the values of transparency, fairness, and consumer advocacy continue to shape the insurance industry for generations to come. To support these values, the NAIC offers a wide range of services, including consumer education, data collection and analysis, technology support, financial analysis and reporting, licensing, and testing. Additionally, the NAIC, through its committees, task forces, and working groups, develops model laws and regulations to help standardize insurance practices across member jurisdictions, ensuring a consistent and effective regulatory framework.

The NAIC’s latest strategic plan, *State Connected*, was designed to prepare both staff and system infrastructure for the next ten-plus years of member and regulatory support. With 32 significant goals spread across six strategic focus areas, NAIC membership has laid a formidable path, effectively advancing insurance regulation while increasing automation and efficiency in the insurance market—a notable win that extends beyond regulators. By enhancing technology platforms, insurers will benefit from improved data accuracy and quicker processing times, all of which will help lead to a faster speed to market.

State Connected guides decisions on budget, personnel, and resources. Consequently, the 2025 budget was crafted with great care, considered the impact and resource needs for all requests and changes, and remained aligned with the strategic plan’s goals. Beyond strategic objectives, the 2025 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 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 NAIC is dedicated to assisting insurance regulators in serving the public interest, promoting a competitive marketplace, and ensuring the fair and equitable treatment of insurance customers. The focus is on maintaining the reliability, solvency, and financial stability of insurers while supporting and enhancing insurance regulation. By leveraging NAIC technology solutions, regulatory tools, and staff resources, members can achieve these objectives with significant cost savings. Membership in the NAIC offers a range of additional benefits and services, often at no charge. In addition to the numerous solvency tools and system access, members receive jurisdiction funding, training, analytical data, regulatory tools, and subject matter experts, all of which provide value that far exceeds the cost of membership. Many of NAIC's systems would be prohibitively expensive for jurisdictions to implement independently. Without the NAIC's collective support and economies of scale, the cost of regulating insurers would rise significantly, leading to higher expenses for insurers, and therefore consumers. Maintaining the NAIC's funding mechanisms benefits all parties involved by keeping regulatory costs manageable.

A Focus on Consumers

The NAIC employs a multi-channel approach to help consumers make informed decisions and effectively utilize their insurance benefits. The website offers a wealth of information, including insurance advice articles, interactive learning modules, and the widely-used Life Insurance Policy Locator. The NAIC also runs various communication campaigns, provides the NAIC Home Inventory mobile app, and engages in media initiatives. Additionally, in the event of an unforeseen disaster, NAIC offers regulatory support to provide local regulators with additional tools and resources to assist the public in their time of need.

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.

By the Numbers

NAIC products and services.

- **System for Electronic Rates & Forms Filing (SERFF)** 517,571 transactions processed in 2023.
- **Online Premium Tax for Insurance (OPT^{ins})** 191,719 transactions processed in 2023.
- **State Based Systems (SBS)**
Back-office services, with varying functionality, currently provided to 36 jurisdictions.
- **Professional Designation Program**
2,254 designations awarded since the program's inception in 2006 through year-end 2023.
- **Center for Insurance Policy and Research (CIPR)** Nearly 150 briefs currently available online including NAIC key initiatives and topics ranging from cybersecurity and innovation to natural catastrophe risk and resiliency.
- In 2023, the NAIC processed nearly **\$6.2 Billion** in payments on behalf of the members, which represents a significant efficiency for both regulators and insurers.

The NAIC remains committed to maintaining and enhancing its infrastructure by staying abreast of emerging technologies. This commitment ensures that regulators are equipped with the necessary tools to protect consumers and promote a fair, competitive, and healthy insurance market. Accordingly, the 2025 budget includes eight fiscal impact statements (fiscals), five of which are focused on technology. These fiscals either continue ongoing modernization efforts, initiate new projects to upgrade critical regulatory support and communication systems, or provide additional resources to improve the speed of system enhancements. The remaining three fiscals will sponsor a significant study on long-term care insurance, provide the infrastructure needed for financial modeling of various types of securities held by insurers, and adds staffing in areas with critical needs.

Building the Budget

The NAIC is committed to transparency in both its budgeting process and overall operations. Each May, department managers evaluate the current year's revenues and expenses to forecast a year-end financial outlook. They then develop budget proposals for the upcoming year, including fiscals for new or significant projects, aligning requests with operational goals and member-driven initiatives. Managers focus on articulating the differences between the current year's budget and projected outcomes, as well as anticipated needs for the following year. This comprehensive process involves reviewing all projects, products, programs, services, committee directives, and technology initiatives in relation to the NAIC's mission, its strategic plan, and member directives. Following this, the NAIC's Chief Executive Officer and senior management conduct a detailed review of each department's budget to make necessary adjustments, ensuring alignment with the association's strategic and financial goals, before consolidating all requests into a single, unified 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 to ensure alignment before being released for public review and comment. To ensure transparency, a public hearing is conducted to gather comments before the NAIC Executive (EX) Committee and Plenary give final consideration and adopt the budget and proposals.

Expected Results for 2024

Based on actual operating results through June 30, 2024, the NAIC projects an operating loss of \$3.8 million compared to a budgeted negative operating margin of \$5.6 million, an improvement of \$1.8 million. Investment income is projected to be a gain of \$15.1 million, resulting in a net asset increase of \$11.3 million, resulting in \$205.2 million in projected net assets at year-end. While investment income is projected at \$11.8 million over budget at year-end, it is important to note that \$7.8 million is based on market valuations. Markets remain volatile and increasing uncertainty may impact future financial performance.

2025 Budget

The 2025 NAIC total operating budget reflects revenues of \$163.7 million and expenses of \$173.6 million, which represent a 6.3% and 8.8% increase, respectively, from the 2024 budget, resulting in \$9.9 million in projected expenses over revenues. Viewed in relation to the 2024 projected totals, the 2025 budget represents an operating revenue increase of 4.5% and operating expense increase of 8.2%. Additional information about the 2025 budget is included in the detailed footnotes of the budget.

A fiscal 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 eight fiscals included in the 2025 budget is \$4.5 million in expenses and \$5.9 million in capital spending. Additional information about each initiative is included in the various fiscal sections of the budget.

The 2025 budget also includes \$3.3 million in investment income from the NAIC's long-term investment portfolio and cash equivalent investments. 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 nor included in the budget.

Combining budgeted results from operations with budgeted investment income, the 2025 budget has a reduction in net assets of \$6.7 million, with projected net assets of \$198.5 million at the end of 2025.

Ensuring Financial Stability

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

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 NAIC's

2025 Fiscal Impact Statements

SERFF Modernization – 2025 Transition Stages

Continues funding of a multi-year initiative to improve the SERFF platform. In 2025, life and property/casualty users will move into the platform. This request includes the addition of two headcount.

- Expense of \$716K for headcount, travel, and amortization.
- Capital of \$5.9M for professional and other services.

VISION Support Team

Includes the addition of five technical staff to support the NAIC's Capital Markets and Investment Analysis Office's immediate and long-term development needs.

- Expense of \$428K for staffing.

Enterprise Data Asset Management – Phase IV

Continues to build upon previous phases which delivered a cloud-based enterprise data platform populated with financial and regulatory data and includes the addition of one headcount for development and ongoing system maintenance.

- Expense of \$719K for staffing and consulting.

Monitoring Collateralized Loan Obligations (CLOs)

Responds to a Valuation of Securities (E) Task Force initiative to maintain credit assessments for various insurer-owned securities, specifically CLOs. This fiscal includes the addition of one headcount for analytical support.

- Expense of \$561K for staffing, consulting, and software.

Long-Term Care Insurance Experience Study

Sponsors an upcoming study with the Society of Actuaries. NAIC members will receive training as well as the study results for assisting with the expenses of this study.

- Expense of \$100K for sponsorship.

Financial Data Repository (FDR) – Modernization Proof-of-Concept

Requests funding for a proof-of-concept (PoC) to explore a third-party solution to house and manage FDR's technical infrastructure. This will demonstrate the vendor's capabilities and potential benefits from utilizing their technology which will modernize the FDR platform.

- Expense of \$450K for the PoC.

Member Customer Relationship Management

Provides funding for a customer relationship management system to improve member engagement and service quality.

- Expense of \$454K for staffing, consulting, and software.

Operational Staffing

Requests the addition of eight headcount in operational and regulatory support areas.

- Expense of \$1.1M for staffing, travel, and equipment.

operating reserves. The new methodology reviews three areas: 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 funding necessary for strategic initiatives planned in the upcoming three years.

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.

Based on the evaluation of these three areas, the current operating reserve target of \$170.4 million was approved. This reserve reflects support of its business operations as well as the ongoing investments required to enhance and modernize many of the association's information technology and technical infrastructure applications. Details of these investments can be seen throughout the 2025 budget.

Preparing for the Unknown

The budget and operating reserve includes all activities anticipated to occur in 2025. However, situations or additional strategic or emerging projects may arise 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 and direction. Supplemental funding can also come from the Regulatory Modernization and Initiatives Fund, which is 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, 2025, or \$3.0 million.

Contact Information

The NAIC appreciates the opportunity to present this budget and believes it provides a comprehensive review of the NAIC's business and financial operations for the current and upcoming year. A summary of the key components of the 2025 budget is included in the budget overview.

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



2025 Budget Overview

NAIC NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

Current State

- The NAIC leverages its technology platforms to support regulatory modernization and industry innovation. Advanced data analytics, AI-driven tools, and cloud-based solutions are increasingly being integrated into the NAIC's offerings, enhancing regulatory oversight, streamlining compliance processes, and fostering deeper insights into market trends. These technology-driven services not only empower regulators with more precise, real-time data, but also help the industry adapt to evolving risks and consumer needs.
- The NAIC continues to strengthen its role as a central hub for its members and the industry by offering a diverse range of in-person and hybrid meetings. These events provide participants with unique, frequent opportunities for collaboration, policy development, education, and more.
- The NAIC continues to be flexible in how it manages its operations while maintaining its primary focus on providing outstanding support to its members and others that depend on the services provided by the NAIC.

Financial Performance in 2024 is above budget

(dollars in millions)

	2023 Actual	2024 Budget	2024 Projection	Change 2024 Budget vs 2024 Projection
Operating Revenue	\$150.8	\$154.0	\$156.6	\$2.6
Operating Expense	144.5	159.6	160.4	0.8
Operating Revenues Over/(Under) Expenses	6.3	(5.6)	(3.8)	1.8
Investment Income	17.1	3.3	15.1	11.8
Net Revenues Over/(Under) Expenses	<u>\$23.4</u>	<u>(\$2.3)</u>	<u>\$11.3</u>	<u>\$13.6</u>

Operating results are expected to be over budget by \$1.8M due to a \$2.6M (1.7%) over run in operating revenue offset by a \$0.8M (0.5%) over run in operating expense.

Investment income is expected to be \$11.8M over budget due to realized and unrealized investment gains impacting both equity and fixed income investments.

Overall, net assets at the end of 2024 are expected to increase by \$11.3M, ending the year at \$205.2M.

2024 Revenues (dollars in millions)

	Budget	Projection	Variance
Member Assessments	\$2.1	\$2.1	
Database Fees	42.3	43.7	\$1.4
Publications and Insurance Data Products	18.3	18.3	
Valuation Services	33.0	32.5	(0.5)
Transaction Filing Fees	23.2	22.4	(0.8)
National and Major Meetings	3.0	3.0	
Education and Training	0.4	0.4	
License Fees and Administrative Services	31.4	33.7	2.3
Other	0.3	0.5	0.2
Total Revenue	\$154.0	\$156.6	\$2.6

With two exceptions, all revenue categories are at or slightly above budget:

- License Fees and Administrative Services revenue is 7.5% above budget due to higher-than-budgeted revenues generated by the NAIC's affiliate National Insurance Producer Registry (NIPR).

- Database Fees revenue is 3.2% above budget due to the average premium growth within the industry of 7.3% compared to the anticipated average of 3.9%.
- Transaction Filing Fees revenue is 3.5% under budget due primarily to SERFF transaction volumes not reaching the anticipated growth rate over 2023 volumes.

2024 Expenses (dollars in millions)

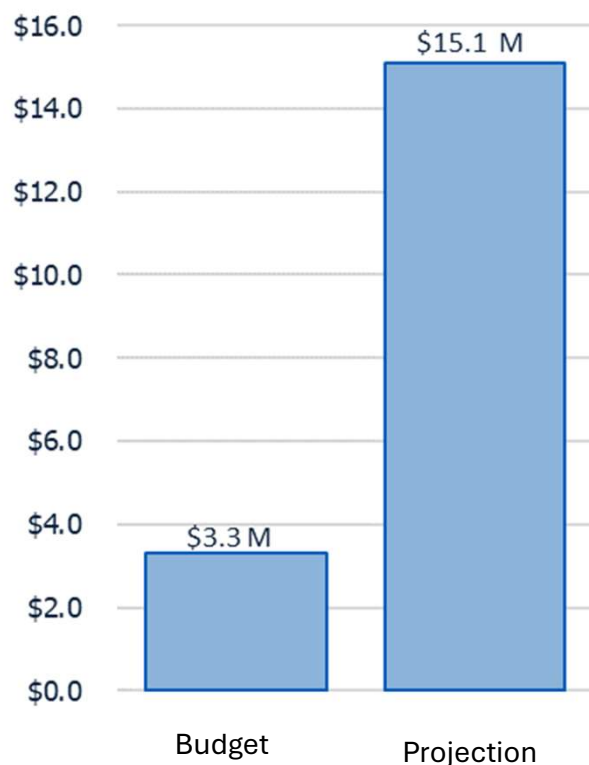
	Budget	Projection	Variance
Salaries, Taxes, and Benefits	\$93.5	\$94.6	\$1.1
Professional Services	18.9	20.1	1.2
Computer Services	8.9	8.7	(0.2)
Travel	6.3	5.8	(0.5)
Occupancy and Rental	4.6	4.5	(0.1)
Software License Fees	10.5	10.1	(0.4)
Depreciation and Amortization	5.6	4.3	(1.3)
National and Major Meetings	5.1	5.9	0.8
Education and Training	0.2	0.2	
Grant and Zone	2.4	2.6	0.2
Administrative and Operational	3.6	3.6	
Total Expense	\$159.6	\$160.4	\$0.8

Most expense categories are at or slightly below budget, resulting in a 0.8% budget over run.

- Staffing costs (salaries, taxes, and benefits) are 1.2% above budget due to low employee turnover as well as higher than expected paid time off (PTO) balances.
- Professional Services costs are 6.3% over budget due to additional resources needed for the implementation of the new learning management system, higher than expected national meeting production, and back-office operations.

- Software License Fees are 3.8% under budget due to delays in the implementation of SERFF Modernization functionality.
- Depreciation and Amortization expenses are 23.2% under budget due to delays in deployment of a few major projects.
- National and Major Meetings are 15.7% over budget principally due to higher regulator attendance, rising cost of hotel food and beverage service, and increased audio-visual costs.

2024 Investment Income



Composition of the NAIC's investment portfolio is a diversified blend of fixed income, equities, real assets, and alternative investments. Through August, the portfolio's return is positive. However, markets remain volatile and increasing uncertainty may impact future financial performance.

Looking to 2025

Cost of labor, travel, and most products and services continue to grow due to inflationary pressures.

Projects associated with *State Connected* will continue to move forward. There are eight fiscals included in the 2025 budget, most of which are related to this strategic plan. Five of the projects are technology based to continue to modernize NAIC applications while the others are focused on supporting the compilation of information, enhancing analytical capabilities, and NAIC's operational capabilities.

2025 Budget (dollars in millions)

	2023 Actual	2024 Budget	2024 Projection	2025 Budget	2025 Budget Increase (Decrease) from 2024 Budget	2025 Budget Increase (Decrease) from 2024 Projection
Operating Revenue	\$150.8	\$154.0	\$156.6	\$163.7	\$9.7	\$7.1
Operating Expense	144.5	159.6	160.4	173.6	14.0	13.2
Operating Revenues Over/(Under) Expenses	6.3	(5.6)	(3.8)	(9.9)	(4.3)	(6.1)
Investment Income	17.1	3.3	15.1	3.3	0.0	(11.8)
Net Revenues Over/(Under) Expenses	\$23.4	(\$2.3)	\$11.3	(\$6.7)	(\$4.3)	(\$17.9)

Operating revenues are budgeted to increase by \$7.1M compared to the 2024 projection, an overall increase of 4.5%.

Operating expenses are budgeted to increase \$13.2M over the 2024 projection and are \$14.0M higher than the 2024 budget. There are eight fiscals included in the 2025 budget with expenses of \$4.5M and capital outlays of \$5.9M.

Investment income is budgeted to be \$3.3M in 2025. 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 \$6.7M.

2025 Operating Revenue (dollars in millions)

	2023 Actual	2024 Budget	2024 Projection	2025 Budget	2025 Budget Increase (Decrease) from 2024 Budget	2025 Budget Increase (Decrease) from 2024 Projection
Member Assessments	\$2.1	\$2.1	\$2.1	\$2.4	\$0.3	\$0.3
Database Fees	41.0	42.3	43.7	48.3	6.0	4.6
Publications and Insurance Data Products	18.4	18.3	18.3	17.5	(0.8)	(0.8)
Valuation Services	33.6	33.0	32.5	33.9	0.9	1.4
Transaction Filing Fees	21.9	23.2	22.4	23.3	0.1	0.9
National and Major Meetings	2.6	3.0	3.0	3.0		
Education and Training	0.4	0.4	0.4	0.4		
License Fees and Administrative Services	30.7	31.4	33.7	34.6	3.2	0.9
Other	0.1	0.3	0.5	0.3		(0.2)
TOTAL OPERATING REVENUES	\$150.8	\$154.0	\$156.6	\$163.7	\$9.7	\$7.1

Operating revenues increase \$7.1M compared to 2024 projection:

- Member Assessments include an increase in the May 2025-April 2026 assessment per member.
- Database Fees anticipates premium growth between 2.5 to 3.0% and an increase in the individual and group cap of 4.8% based on the 2023 CPI-U.
- The price of many SVO designations will increase slightly (\$25-\$50) while the price of CMRS/RMBS securities is unchanged.
- Transaction Filing Fees increase \$0.9M due to an increase in SBS continuing education volumes, a price increase for experience data fees, and UCAA submission fees.
- License Fees and Administrative Services increase by \$0.9M due to anticipated growth in NIPR revenues.
- All publications, most notably the *NAIC Accounting Practices and Procedures (AP&P) Manual*, will be made available free of charge in 2025, reducing revenues \$0.8M.

2023 Actual – 2025 Budget Revenue Composition

(dollars in millions)

	2023 Actual	2023 Composite Mix	2024 Budget	2024 Budget Composite Mix	2024 Projection	2024 Projection Composite Mix	2025 Budget	2025 Composite Mix
Member Assessments	\$2.1	1.4%	\$2.1	1.4%	\$2.1	1.3%	\$2.4	1.5%
Database Fees	41.0	27.2%	42.3	27.5%	43.7	27.9%	48.3	29.5%
Publications and Insurance Data Products	18.4	12.2%	18.3	11.9%	18.3	11.7%	17.5	10.7%
Valuation Services	33.6	22.3%	33.0	21.4%	32.5	20.8%	33.9	20.7%
Transaction Filing Fees	21.9	14.5%	23.2	15.1%	22.4	14.3%	23.3	14.2%
National and Major Meetings	2.6	1.7%	3.0	2.0%	3.0	1.9%	3.0	1.8%
Education and Training	0.4	0.3%	0.4	0.3%	0.4	0.3%	0.4	0.2%
License Fees and Administrative Services	30.7	20.4%	31.4	20.4%	33.7	21.5%	34.6	21.1%
Other	0.1	0.1%	0.3	0.2%	0.5	0.3%	0.3	0.2%
TOTAL OPERATING REVENUES	\$150.8	100.0%	\$154.0	100.0%	\$156.6	100.0%	\$163.7	100.0%

Database Fees remains the largest category at 29.5% of revenues with a \$4.6M increase over 2024 projections due to premium growth as well as an increase in the filing fee calculation from \$26 per million in premiums to \$30 per million.

License Fees and Administrative Services is the second largest category and Valuation Services the third.

2025 Operating Expenses (dollars in millions)

	2023 Actual	2024 Budget	2024 Projection	2025 Budget	2025 Budget Increase (Decrease) from 2024 Budget	2025 Budget Increase (Decrease) from 2024 Projection
Salaries, Taxes, and Benefits	\$84.9	\$93.6	\$94.6	\$101.2	\$7.6	\$6.6
Professional Services	16.5	18.9	20.1	21.2	2.3	1.1
Computer Services	8.5	8.9	8.7	8.9		0.2
Travel	5.6	6.3	5.8	6.5	0.2	0.7
Occupancy and Rental	4.7	4.6	4.5	4.6		0.1
Software License Fees	8.5	10.5	10.1	12.0	1.5	1.9
Depreciation and Amortization	3.6	5.6	4.3	6.8	1.2	2.5
National and Major Meetings	6.3	5.1	5.9	5.6	0.5	(0.3)
Education and Training	0.2	0.2	0.2	0.3	0.1	0.1
Grant and Zone	2.1	2.4	2.6	2.5	0.1	(0.1)
Administrative and Operational	3.6	3.5	3.6	4.0	0.5	0.4
TOTAL OPERATING EXPENSES	\$144.5	\$159.6	\$160.4	\$173.6	\$14.0	\$13.2

Operating expenses increase \$13.2M over 2024 projections:

- Salaries, Taxes, and Benefits expenses increase \$6.6M due to an annual merit increase for staff, an increase in the number of employees, conversion of staff added in mid-2024 to a full year, lower turnover, and increased benefit costs per employee.
- Software License Fees increase \$1.9M compared to 2024 projections due to deployment of several major capital projects, such as SERFF Modernization and UCAA, as well as the increasing costs of software applications required to support the NAIC's technical infrastructure.
- Depreciation and Amortization expenses increase \$2.5M over 2024 projections due to the deployment of modules within SERFF Modernization and UCAA in addition to depreciation of the NAIC's new offices in Kansas City, MO, and Washington, D.C.

2023 Actual – 2025 Budget Expense Composition

(dollars in millions)

	2023 Actual	2023 Composite Mix	2024 Budget	2024 Budget Composite Mix	2024 Projection	2024 Projection Composite Mix	2025 Budget	2025 Composite Mix
Salaries, Taxes, and Benefits	\$84.9	58.8%	\$93.6	58.7%	\$94.6	59.0%	\$101.2	58.3%
Professional Services	16.5	11.4%	18.9	11.8%	20.1	12.5%	21.2	12.2%
Computer Services	8.5	5.9%	8.9	5.6%	8.7	5.4%	8.9	5.1%
Travel	5.6	3.9%	6.3	4.0%	5.8	3.6%	6.5	3.7%
Occupancy and Rental	4.7	3.3%	4.6	2.9%	4.5	2.8%	4.6	2.7%
Software License Fees	8.5	5.9%	10.5	6.6%	10.1	6.3%	12.0	6.9%
Depreciation and Amortization	3.6	2.5%	5.6	3.5%	4.3	2.7%	6.8	3.9%
National and Major Meetings	6.3	4.4%	5.1	3.2%	5.9	3.7%	5.6	3.2%
Education and Training	0.2	0.1%	0.2	0.1%	0.2	0.1%	0.3	0.2%
Grant and Zone	2.1	1.5%	2.4	1.5%	2.6	1.6%	2.5	1.4%
Administrative and Operational	3.6	2.5%	3.5	2.2%	3.6	2.2%	4.0	2.3%
TOTAL OPERATING EXPENSES	\$144.5	100.0%	\$159.6	100.0%	\$160.4	100.0%	\$173.6	100.0%

Staffing costs remains the largest category of total expense at 58.3% 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.

Software License Fees support the NAIC’s technical applications.

Depreciation and Amortization increases are related to projected implementation dates for SERFF modernization and UCAA projects.

2025 Fiscal Summary

SERFF Modernization – 2025 Transition Stages

This fiscal is to continue funding a multi-year initiative to improve the SERFF platform. In 2025, life and property/casualty users will move into the platform. This request includes the addition of two headcount.

- The financial impact of this fiscal in 2025 includes:
 - \$716K in expenses for headcount, travel, and amortization; and
 - \$5.9M in capital consulting and software.

VISION Support Team

This fiscal includes the addition of five technical staff to support the NAIC's Capital Markets and Investment Analysis Office's immediate and long-term development needs.

- The financial impact of this fiscal in 2025 includes \$428K in expenses for staffing.

Enterprise Data Asset Management – Phase IV

This fiscal continues to build upon previous phases which delivered a cloud-based enterprise data platform populated with financial and regulatory data and includes the addition of one headcount for development and ongoing system maintenance.

- The financial impact of this fiscal in 2025 includes \$719K in expenses for staffing and consulting.

2025 Fiscal Summary (continued)

Monitoring Collateralized Loan Obligations (CLOs)

This fiscal is responding to a Valuation of Securities (E) Task Force initiative to maintain credit assessments for various insurer-owned securities, specifically CLOs. The request includes the addition of one headcount for analytical support.

- The financial impact of this fiscal in 2025 includes \$561K in expenses for staffing and software.

Long-Term Care Insurance Experience Study

This fiscal is to sponsor an upcoming study with the Society of Actuaries. NAIC members will receive training as well as the study results for assisting with the cost of this study.

- The financial impact of this fiscal in 2025 includes \$100K for sponsorship.

Financial Data Repository (FDR) – Modernization Proof-of-Concept

This fiscal requests funding for a proof-of-concept to explore a third-party solution to house and manage FDR's technical infrastructure. This will demonstrate the vendor's capabilities and potential benefits from utilizing their technology which will fully modernize the FDR platform.

- The financial impact of this fiscal in 2025 includes \$450K for the proof-of-concept.

2025 Fiscal Summary (cont.)

Member Customer Relationship Management

This fiscal requests funding for a customer relationship management (CRM) system to improve member engagement and service quality.

- The financial impact of this fiscal in 2025 includes \$454K for staffing, consulting, and software.

Operational Staffing

This fiscal includes the addition of eight headcount in operational and regulatory support areas.

- The financial impact of this fiscal in 2025 includes \$1.1M for staffing, travel, and equipment.

2025 Fiscal Impact Statements Summary

(dollars in millions)

Initiative	2025 Capital	2025 Revenue	2025 Expense	Net Impact on 2025 Budget
2025 Operational Budget Before Fiscals and Investment Income	\$6.6	\$163.7	\$169.1	(\$5.5)
SERFF Modernization – 2025 Transition Stages	5.9		0.7	(0.7)
VISION Support Team			0.4	(0.4)
Enterprise Data Asset Management – Phase IV			0.7	(0.7)
Monitoring Collateralized Loan Obligations (CLOs)			0.6	(0.6)
Long-Term Care Insurance Experience Study			0.1	(0.1)
Financial Data Repository (FDR) - Modernization Proof-of-Concept			0.4	(0.4)
Member Customer Relationship Management			0.5	(0.5)
Operational Staffing			1.1	(1.1)
Total Fiscal Impact Statements	5.9		4.5	(4.5)
2025 Operational Budget After Fiscals and Investment Income	12.5	163.7	173.6	(10.0)
Investment Income		3.3		3.3
2025 Budget After Fiscals and Investment Income	\$12.5	\$167.0	\$173.6	(\$6.7)

2025 Headcount

2025 Headcount by Department			
Division	Current Approved Headcount	Fiscal Requests	Headcount including 2025 Fiscals
CIPR	10.5		10.5
Communications	10.0		10.0
Executive (includes Finance)	26.0	1.0	27.0
Financial and Market Regulatory Services	155.5	5.0	160.5
Government Relations	20.0		20.0
Information Technology Group	236.0	11.0	247.0
Legal	14.0		14.0
Member Services	31.0	1.0	32.0
People Operations\Benefits\Diversity, Equity & Inclusion	16.0		16.0
Security, Risk, and Compliance	22.0		22.0
Total Headcount	541.0	18.0	559.0

The 2025 budget requests 18 new headcount to support regulatory and business operations.

Nearly 50% of staff support technology and cybersecurity functions.

Employees are assigned to the NAIC's three office locations - Kansas City, MO (486), New York, NY (50), and Washington, D.C. (23) – but may have the ability to work remotely depending on their job responsibilities.

Leaning Into 2026 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.

**2025 BUDGET
REVENUE AND EXPENSE SUMMARY**

Description	2024					2025				
	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2024 Projected Variance	2025 Budget	Increase (Decrease) from 2024 Budget	%	Increase (Decrease) from 2024 Projected	%
Operational Revenues	\$150,782,619	\$97,683,043	\$156,582,871	\$153,972,792	\$2,610,079	\$163,686,292	\$9,713,500	6.3%	\$7,103,421	4.5%
Operational Expenses	144,524,086	73,950,874	160,430,590	159,621,317	809,273	169,145,423	9,524,106	6.0%	8,714,833	5.4%
Operating Revenues Over/(Under) Expenses Before Fiscal Impact Statements	6,258,533	23,732,169	(3,847,719)	(5,648,525)	1,800,806	(5,459,131)	189,394		(1,611,412)	
Fiscal Impact Statement Revenues (1)						15,000	15,000		15,000	
Fiscal Impact Statement Expenses (1)						4,484,527	4,484,527		4,484,527	
Fiscal Impact Statement Revenues Over/(Under) Expenses						(4,469,527)	(4,469,527)		(4,469,527)	
Investment Income	17,100,356	7,346,185	15,108,985	3,294,000	11,814,985	3,276,000	(18,000)		(11,832,985)	
Total Revenues After Fiscal Impact Statements	167,882,975	105,029,228	171,691,856	157,266,792	14,425,064	166,977,292	9,710,500	6.2%	(4,714,564)	-2.8%
Total Expenses After Fiscal Impact Statements	144,524,086	73,950,874	160,430,590	159,621,317	809,273	173,629,950	14,008,633	8.8%	13,199,360	8.2%
Total Revenues Over/(Under) Expenses	<u>\$23,358,889</u>	<u>\$31,078,354</u>	<u>\$11,261,266</u>	<u>(\$2,354,525)</u>	<u>\$13,615,791</u>	<u>(\$6,652,658)</u>	<u>(\$4,298,133)</u>		<u>(\$17,913,924)</u>	

(1) See the Fiscal Impact section for details.

**2025 BUDGET
REVENUE AND EXPENSE BY LINE**

Description	Reference	2024					2025				
		2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2024 Projected Variance	2025 Budget	Increase (Decrease) from 2024 Budget	%	Increase (Decrease) from 2024 Projected	%
Member Assessments	R1	\$2,125,696	\$1,064,803	\$2,131,204	\$2,131,205	(\$1)	\$2,420,261	\$289,056	13.6%	\$289,057	13.6%
Database Fees	R2	40,955,141	43,655,514	43,656,336	42,308,824	1,347,512	48,301,095	5,992,271	14.2%	4,644,759	10.6%
Publications and Insurance Data Products	R3	18,397,511	11,589,231	18,316,224	18,262,175	54,049	17,548,935	(713,240)	-3.9%	(767,289)	-4.2%
Valuation Services	R4	33,620,467	11,239,765	32,581,050	33,105,400	(524,350)	33,937,575	832,175	2.5%	1,356,525	4.2%
Transaction Filing Fees	R5	21,924,289	12,057,114	22,388,949	23,209,726	(820,777)	23,293,074	83,348	0.4%	904,125	4.0%
National and Major Meetings	R6	2,605,556	924,027	2,964,234	2,977,913	(13,679)	2,958,225	(19,688)	-0.7%	(6,009)	-0.2%
Education and Training	R7	398,826	149,000	368,621	368,319	302	350,290	(18,029)	-4.9%	(18,331)	-5.0%
License Fees and Administrative Services	R8	30,677,213	16,685,958	33,703,090	31,352,387	2,350,703	34,637,821	3,285,434	10.5%	934,731	2.8%
Other	R9	77,920	317,631	473,163	256,843	216,320	254,016	(2,827)	-1.1%	(219,147)	-46.3%
Total Operating Revenues		150,782,619	97,683,043	156,582,871	153,972,792	2,610,079	163,701,292	9,728,500	6.3%	7,118,421	4.5%
Salaries	E1	65,894,244	35,003,146	72,838,514	72,350,639	487,875	78,187,077	5,836,438	8.1%	5,348,563	7.3%
Temporary Personnel	E2	870,817	349,825	741,896	801,552	(59,656)	938,294	136,742	17.1%	196,398	26.5%
Payroll Taxes	E3	5,062,210	2,920,896	5,539,646	5,580,512	(40,866)	6,043,020	462,508	8.3%	503,374	9.1%
Employee Benefits	E4	12,378,750	6,920,719	14,651,225	13,767,525	883,700	15,158,263	1,390,738	10.1%	507,038	3.5%
Employee Development	E5	646,511	338,094	862,073	963,501	(101,428)	853,713	(109,788)	-11.4%	(8,360)	-1.0%
Professional Services	E6	16,477,353	6,645,487	20,053,326	18,949,561	1,103,765	21,217,506	2,267,945	12.0%	1,164,180	5.8%
Computer Services	E7	8,499,674	4,235,050	8,676,036	8,926,699	(250,663)	8,896,252	(30,447)	-0.3%	220,216	2.5%
Travel	E8	5,570,248	2,556,273	5,823,536	6,256,314	(432,778)	6,532,294	275,980	4.4%	708,758	12.2%
Occupancy and Rental	E9	4,845,683	2,296,232	4,546,183	4,725,987	(179,804)	4,713,456	(12,531)	-0.3%	167,273	3.7%
Software License Fees	E10	\$8,342,811	4,993,242	10,035,274	10,414,055	(378,781)	11,881,332	1,467,277	14.1%	1,846,058	18.4%
Depreciation and Amortization	E11	3,618,383	1,585,417	4,286,091	5,617,094	(1,331,003)	6,841,100	1,224,006	21.8%	2,555,009	59.6%
Operational	E12	2,082,259	1,180,840	1,982,282	1,797,706	184,576	1,918,766	121,060	6.7%	(63,516)	-3.2%
Library Reference Materials	E13	388,412	197,921	387,120	390,291	(3,171)	419,982	29,691	7.6%	32,862	8.5%
National and Major Meetings	E14	6,259,434	2,848,218	5,857,805	5,113,270	744,535	5,623,908	510,638	10.0%	(233,897)	-4.0%
Education and Training	E15	183,361	13,688	189,682	220,039	(30,357)	259,816	39,777	18.1%	70,134	37.0%
Grant and Zone	E16	2,118,802	847,542	2,596,964	2,445,000	151,964	2,525,000	80,000	3.3%	(71,964)	-2.8%
Other	E17	1,285,134	1,018,284	1,362,937	1,301,572	61,365	1,620,171	318,599	24.5%	257,234	18.9%
Total Operating Expenses		144,524,086	73,950,874	160,430,590	159,621,317	809,273	173,629,950	14,008,633	8.8%	13,199,360	8.2%
Revenues Over/(Under) Expenses before Investment Income		6,258,533	23,732,169	(3,847,719)	(5,648,525)	1,800,806	(9,928,658)	(4,280,133)		(6,080,939)	
Investment Income	III	17,100,356	7,346,185	15,108,985	3,294,000	11,814,985	3,276,000	(18,000)		(11,832,985)	
Revenues Over/(Under) Expenses		\$23,358,889	\$31,078,354	\$11,261,266	(\$2,354,525)	\$13,615,791	(\$6,652,658)	(\$4,298,133)		(\$17,913,924)	

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 members to fund the activities of the NAIC offices. Member Assessments are based on relative premium volume of the member's domiciled companies compared to total premium volume.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Member Assessments (1)	\$2,125,696	\$1,064,803	\$2,131,204	\$2,131,205	\$2,420,261	\$289,056	13.6%

- (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 2024 - April 2025 assessment and eight months of the May 2025 - April 2026 assessment. The May 2025 - April 2026 member assessments are illustrated in Exhibit R1-One.

The 2025 budget includes an average increase of 20% in the May 2025-April 2026 fee calculation, including the minimum and maximum fees. The minimum fee will increase from \$7,339 to \$10,000 and the maximum fee will increase from \$125,000 to \$150,000. The increase in fees is to help offset rising operational costs, significant capital investments in infrastructure, and to fund future growth.

NAIC MEMBER ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$10,000 Minimum \$150,000 Cap 2025/26 Amount	\$7,339 Minimum \$125,000 Cap 2024/25 Amount	\$7,339 Minimum \$125,000 Cap 2023/24 Amount
Alabama	\$40,442,640,716	1.2354%	\$34,426	\$34,426	\$28,020	\$27,838
Alaska	5,138,861,520	0.1570%	4,375	\$10,000	7,339	7,339
American Samoa	5,481,133	0.0002%	6	\$10,000	7,339	7,339
Arizona	52,618,169,400	1.6073%	44,790	\$44,790	36,415	35,291
Arkansas	23,512,068,863	0.7182%	20,014	\$20,014	16,353	16,793
California	212,126,083,227	6.4796%	180,564	\$150,000	125,000	125,000
Colorado	61,611,771,752	1.8820%	52,445	\$52,445	41,047	41,988
Connecticut	46,452,368,054	1.4189%	39,540	\$39,540	33,442	36,632
Delaware	80,451,257,992	2.4575%	68,482	\$68,482	66,606	78,166
District Of Columbia	12,989,105,657	0.3968%	11,057	\$11,057	10,527	9,513
Florida	263,005,859,961	8.0338%	223,874	\$150,000	125,000	125,000
Georgia	92,963,094,595	2.8396%	79,130	\$79,130	65,893	64,791
Guam	633,940,048	0.0194%	541	\$10,000	7,339	7,339
Hawaii	16,509,402,709	0.5043%	14,053	\$14,053	12,180	12,124
Idaho	13,905,524,902	0.4248%	11,838	\$11,838	10,183	9,817
Illinois	130,799,890,225	3.9954%	111,338	\$111,338	89,835	91,067
Indiana	59,990,036,839	1.8325%	51,065	\$51,065	41,605	39,979
Iowa	42,560,076,040	1.3000%	36,226	\$36,226	34,613	37,616
Kansas	29,342,255,715	0.8963%	24,977	\$24,977	21,058	21,176
Kentucky	41,875,773,915	1.2791%	35,644	\$35,644	29,590	29,362
Louisiana	53,348,224,002	1.6296%	45,411	\$45,411	36,661	36,314
Maine	11,362,271,896	0.3471%	9,672	\$10,000	8,044	8,047
Maryland	50,970,885,588	1.5570%	43,388	\$43,388	36,285	36,602
Massachusetts	75,170,827,167	2.2962%	63,987	\$63,987	55,155	54,230
Michigan	98,178,399,807	2.9990%	83,572	\$83,572	66,672	66,589
Minnesota	60,984,054,596	1.8628%	51,910	\$51,910	44,638	43,636
Mississippi	22,420,381,782	0.6849%	19,086	\$19,086	15,399	15,509
Missouri	57,581,556,006	1.7589%	49,014	\$49,014	40,049	38,077
Montana	8,182,470,764	0.2499%	6,964	\$10,000	7,339	7,339
Nebraska	20,759,686,542	0.6341%	17,670	\$17,670	14,999	15,111
Nevada	26,176,245,542	0.7996%	22,282	\$22,282	18,824	18,328
New Hampshire	12,913,563,873	0.3945%	10,993	\$10,993	9,614	9,455
New Jersey	105,099,872,765	3.2104%	89,463	\$89,463	73,902	72,232
New Mexico	19,144,482,249	0.5848%	16,296	\$16,296	13,652	13,419
New York	289,558,490,334	8.8448%	246,474	\$150,000	125,000	125,000
North Carolina	88,641,565,962	2.7076%	75,451	\$75,451	62,667	57,813
North Dakota	9,389,025,962	0.2868%	7,992	\$10,000	7,339	7,339
Northern Mariana Islands	84,545,305	0.0026%	72	\$10,000	7,339	7,339
Ohio	143,102,802,431	4.3712%	121,810	\$121,810	107,535	99,744
Oklahoma	28,039,297,681	0.8565%	23,868	\$23,868	19,383	19,296
Oregon	41,366,595,296	1.2636%	35,212	\$35,212	28,965	28,887
Pennsylvania	146,415,282,072	4.4724%	124,630	\$124,630	105,454	105,827
Puerto Rico	20,621,243,263	0.6299%	17,553	\$17,553	14,590	14,535
Rhode Island	12,453,098,866	0.3804%	10,600	\$10,600	8,546	8,838
South Carolina	46,581,032,003	1.4229%	39,651	\$39,651	31,559	30,705
South Dakota	10,474,117,719	0.3199%	8,914	\$10,000	7,339	7,339
Tennessee	61,882,780,825	1.8903%	52,676	\$52,676	42,559	42,698
Texas	275,809,691,439	8.4249%	234,773	\$150,000	125,000	125,000
U.S. Virgin Islands	541,376,600	0.0165%	460	\$10,000	7,339	7,339
Utah	27,208,400,660	0.8311%	23,160	\$23,160	19,523	18,558
Vermont	5,032,244,890	0.1537%	4,283	\$10,000	7,339	7,339
Virginia	77,664,054,006	2.3723%	66,108	\$66,108	54,591	54,114
Washington	63,144,778,969	1.9288%	53,749	\$53,749	45,441	45,986
West Virginia	14,785,938,909	0.4517%	12,587	\$12,587	10,362	10,273
Wisconsin	57,376,366,370	1.7526%	48,839	\$48,839	37,977	37,642
Wyoming	4,354,799,593	0.1330%	3,706	\$10,000	7,339	7,339
Total Member Assessments	\$3,273,754,114,997	100.00%	\$2,786,661	\$2,563,991	\$2,132,803	\$2,128,008

Four months of the May 2024-April 2025 assessment \$710,934
Eight months of the May 2025-April 2026 assessment 1,709,327

Total calendar year 2025 assessment \$2,420,261

BUDGET ITEM: Database Fees

Item Description: Fees from 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 premiums or reinsurance assumed from non-affiliates.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$40,955,141	\$43,655,514	\$43,656,336	\$42,308,824	\$48,301,095	\$5,992,271	14.2%

(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 2024 are based on actual 2023 data year filings received through July 31, 2024. The projected over budget variance reflects average premium growth within the industry of 7.3% with individual and non-capped groups growing at 5.8% and capped groups growing at 10.0%, compared to the anticipated average of 3.9%. The 2025 budget incorporates an increase in premiums over current year filings ranging from 2.5% to 3.0%. The filing fee calculation of \$26 per million in premiums will increase to \$30 in 2025. Additionally, the 2023 year-end CPI-U of 4.8% has been applied to filing fee caps for 2025, resulting in an individual company cap of \$105,239 and a group cap of \$526,195. The filing fee floor of \$240 and combined filing fee of \$690 remain unchanged.

The increase in the fee calculation of \$4 per million dollars in premiums is the first change in the filing fee calculation in eight years. In 2017, the NAIC decreased fees by five percent with the first application of a flat rate per million dollars fee basis. The flat rate per million has remained at \$26 per million since that time. While the NAIC has not applied rate increases of CPI-U to the flat fee in seven years, it becomes necessary to do so now to help offset rising operational costs, fund significant capital investments in infrastructure, and support future growth. The insurance industry will see benefits from the increase in filing fees with the release of updated filing systems and converting all NAIC publications to be free of charge.

The group cap limits the impact of filing fees for groups of insurers with aggregate fees that exceed the cap. With the filing of 2023 data during the 2024 calendar year, groups hitting the group filing fee cap of \$502,095 had a reduction in fees of \$15.7 million. The 20 groups with 877 companies hitting the group filing fee cap reported over \$1.3 trillion in premiums. The \$15.7 million in savings to groups in 2024 represents a 61% reduction in database filing fees for the filing companies and a 26% 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Publications (1)	\$1,619,696	\$744,577	\$1,455,872	\$1,536,517	\$365,483	(\$1,171,034)	-76.2%
Insurance Data Products (2)	11,853,444	9,024,281	11,860,240	11,591,628	11,886,677	295,049	2.5%
Filing Support Product Platform (3)	4,924,371	1,820,373	5,000,112	5,134,030	5,296,775	162,745	3.2%
Total	<u>\$18,397,511</u>	<u>\$11,589,231</u>	<u>\$18,316,224</u>	<u>\$18,262,175</u>	<u>\$17,548,935</u>	<u>(\$713,240)</u>	-3.9%

- (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 2024 reflect a continued decline in digital publication royalties and a decline in online digital sales. The 2025 budget continues to reflect the decline in royalties for the redistribution of NAIC publications by third-party vendors. In 2025 the NAIC will convert all publications to be free of charge. This includes the *NAIC Accounting Practices and Procedures (AP&P) Manual*, which is projected to produce \$857,000 in revenue in 2024.
- (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 (\$11 million) and (2) direct sales to customers (\$846,300). This data is leveraged to conduct research and benchmark specific company data and performance to various industry aggregates, among other activities. The over budget performance in 2024 is the result of an increased interest in this product line. The budgeted increase in revenue in 2025 incorporates this increase in sales and contractual price increases of 5% or less. 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) enhanced Annual Statement Instructions; and (4) integrated 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Capital Markets and Investment Analysis Fees (1)	\$12,887,000	\$6,125,125	\$12,286,125	\$12,763,500	\$13,371,800	\$608,300	4.8%
Structured Securities (2)	13,418,467	1,070,640	12,157,500	12,165,000	12,413,000	248,000	2.0%
Automated Valuation Service (3)	7,315,000	4,044,000	8,137,425	8,176,900	8,152,775	(24,125)	-0.3%
Total	\$33,620,467	\$11,239,765	\$32,581,050	\$33,105,400	\$33,937,575	\$832,175	2.5%

- (1) The NAIC's Capital Markets and Investment Analysis Office provides regulators with investment security valuations, capital markets analysis, research, and evaluations of components of an insurers investment portfolio risks. Revenues generated from Capital Markets and Investment Analysis fees in 2024 are projected to fall short of budget due to a lower volume of advanced rating requests. The 2025 budget anticipates volumes to remain relatively consistent with 2024 budget and includes price adjustments ranging from \$25 to \$50 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) \$10.2 million for securities designated by the SVO (as illustrated in Exhibit R4-One); (2) \$548,025 for the processing of subsidiary valuation filings; (3) \$494,500 for advanced rating services; (4) \$154,800 in services provided to banks and financial institutions that wish to be placed on the NAIC List of Qualified U.S. Financial Institutions; (5) \$125,900 in service fees for the review of money market funds; (6) \$378,100 in service fees for the review of exchange traded funds; (7) \$59,350 in service fees for the review of working capital financial investments; (8) \$13,125 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) \$58,450 in service fees for the review of counterparty derivatives; (10) \$1.1 million in private letter ruling fees; (11) \$241,600 for the right for redistributors to use SVO exchange traded fund designations; and (12) \$20,950 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, as well as advanced rating services for structured securities. Revenue is based on the sales of individual security ratings to insurers based on their holdings and the sale of RMBS, CMBS, or complete RMBS/CMBS datasets to third parties. The 2024 projection is based on the number of securities rated and advanced ratings provided in the prior year. For 2025, there is no change in the \$80 RMBS or \$110 CMBS price per security. The increase in the budget for 2025 is based on an expected increase in CMBS ratings, partially offset by a decrease in dataset sales to third-party customers.
- (3) 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 financial statement investment filings. Fees are based on the value of assets held in a company's portfolio. The price of this service for third-party administrators will increase from \$12,000 to \$14,000 in 2025.

Securities Designated by the SVO

Product Description	2024 Filing Fee	2025 Filing Fee	2025 Budgeted Volumes	2025 Budgeted Revenue
Corporates				
Regulatory Transactions - Initial	\$5,300	\$5,300	20	\$106,000
Regulatory Transactions - Annual	\$10,000	\$10,000	3	30,000
Regulatory Transactions - Annual Update (Additional Issue)	\$500	\$550	15	8,250
Corporate Initial Rated	\$425	\$450	10	4,500
Corporate A/U Rated	\$425	\$450	32	14,400
Corporate Initial Issuer Not in VOS	\$5,300	\$5,300	225	1,192,500
Corporate Initial Issuer Not in VOS Foreign	\$6,375	\$6,375	39	248,625
Corporate Annual/Initial Reinstatement	\$5,300	\$5,300	3	15,900
Corporate A/U Not Rated	\$1,925	\$1,925	803	1,545,775
Corporate A/U Not Rated Foreign	\$2,125	\$2,125	298	633,250
Corporate Initial Not Rated	\$1,925	\$1,925	175	336,875
Corporate Initial Not Rated Foreign	\$2,125	\$2,125	23	48,875
Corporate Initial Expired Info Request	\$425	\$450	47	21,150
Corporate Annual Expired Info Request	\$425	\$450	15	6,750
Corporate Rejected Filing	\$425	\$450	116	52,200
Corporate Non-Billable Filing	\$0	\$0	42	0
Corporate A/U Issuer CRP Rated	\$650	\$675	609	411,075
Corporate A/U Issuer Rated Add Issue	\$425	\$450	3,400	1,530,000
Corporate Initial Issuer CRP Rated	\$1,925	\$1,950	152	296,400
Corporate Initial Issuer Rated Add Issue	\$1,925	\$1,950	297	579,150
Corporate Material Change	\$1,600	\$1,600	4	6,400
Corporate Renumbering Request	\$0	\$0	21	0
Corporate Initial Complex Credit Not in VOS	\$8,000	\$8,000	8	64,000
Corporate Initial Complex Credit in VOS	\$2,650	\$2,650	1	2,650
Schedule BA Initial Not in VOS	\$5,300	\$5,300	2	10,600
Schedule BA Annual Rated	\$425	\$450	4	1,800
Schedule BA Annual VOS Not Rated	\$1,925	\$1,950	21	40,950
Schedule BA A/U Issuer CRP Rated	\$650	\$675	1	675
Schedule BA A/U Issuer Rated Add Issue	\$425	\$450	5	2,250
Total Corporates				7,211,000
Municipals				
Municipal Initial Rated	\$425	\$450	3	1,350
Municipal A/U Rated	\$425	\$450	2	900
Municipal Initial Issuer Not in VOS	\$5,300	\$5,300	19	100,700
Municipal A/R VOS Not Rated	\$1,925	\$1,950	41	79,950
Municipal Initial Not Rated	\$1,925	\$1,950	4	7,800
Municipal Initial Expired Info Request	\$425	\$450	13	5,850
Municipal A/R Issuer CRP Rated	\$650	\$675	30	20,250
Municipal Initial Issuer CRP Rated	\$1,925	\$1,950	8	15,600
Municipal Initial Issuer Rated Add Issue	\$1,925	\$1,950	13	25,350
Municipal Annual Lottery Add Issue	\$425	\$450	41	18,450
Municipal Initial Lottery	\$1,475	\$1,475	1	1,475
Municipal Annual Lottery	\$775	\$775	25	19,375
Municipal Initial Pre-Refunded	\$1,475	\$1,475	44	64,900
Municipal A/R Issuer Rated Add Issue	\$425	\$450	50	22,500
Municipal Rejected Filing	\$425	\$450	15	6,750
Municipal Non-Billable Filing	\$0	\$0	3	0
Municipal Additional Issue Pre-Refunded	\$425	\$450	25	11,250
Total Municipals				402,450

Securities Designated by the SVO

Product Description	2024 Filing Fee	2025 Filing Fee	2025 Budgeted Volumes	2025 Budgeted Revenue
Structured				
Structured CTL Annual Rated	\$425	\$450	1,055	474,750
Structured CTL Annual Not Rated	\$1,925	\$1,925	14	26,950
Structured Initial Rated	\$425	\$450	8	3,600
Structured A/U Rated	\$425	\$450	68	30,600
Structured Replication A/U	\$425	\$450	870	391,500
Military Housing Bonds Annual	\$1,925	\$1,950	20	39,000
Military Housing Bonds Annual Additional	\$425	\$450	7	3,150
Military Housing Bonds Annual Rated	\$425	\$450	1	450
Structured Initial Expired Info Request	\$425	\$450	7	3,150
Structured Non-Billable Filing	\$0	\$0	2	0
Structured CTL Bond Initial	\$1,925	\$1,950	20	39,000
Structured CTL Lease Initial	\$2,650	\$2,650	30	79,500
Structured GLF Annual Not Rated	\$3,650	\$3,650	1	3,650
Structured A/U Not Rated	\$1,925	\$1,950	100	195,000
Structured Replication Initial	\$1,925	\$1,950	399	778,050
Structured Replication Collateral	\$425	\$450	200	90,000
Structured Annual Structured Settlement	\$650	\$675	66	44,550
Structured Rejected Filing	\$425	\$450	3	1,350
Structured Material Change	\$1,600	\$1,600	2	3,200
Structured Annual Structured Settlement Add Issue	\$425	\$450	700	315,000
CTL - NRSAR Analysis	\$8,000	\$8,000	2	16,000
Total Structured				2,538,450
Total Securities				<u><u>\$10,151,900</u></u>

BUDGET ITEM: Transaction Filing Fees

Item Description: Transaction filing fees are generated through platforms built to assist departments of insurance with regulatory filings, including System for Electronic Rates and Forms Filing (SERFF), Online Premium Tax for Insurance (OPT*ins*), State Based Systems (SBS), Experience Data Fees, International Insurers Department (IID), and Uniform Certificate of Authority Application (UCAA).

Description	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
SERFF Fees (1)	\$10,763,322	\$5,745,550	\$10,807,768	\$11,612,039	\$11,067,621	(\$544,418)	-4.7%
SERFF Data Hosting	1,700,157	786,584	1,573,168	1,736,750	1,495,000	(241,750)	-13.9%
OPT <i>ins</i> Fees (2)	2,113,649	1,542,912	2,191,788	2,046,045	2,504,824	458,779	22.4%
SBS Fees (3)	5,357,369	2,910,459	5,696,433	5,680,250	5,707,231	26,981	0.5%
Experience Data Fees (4)	1,030,000		1,030,000	1,010,000	1,287,500	277,500	27.5%
IID Fees (5)	959,755	1,071,533	1,087,595	1,122,642	1,130,818	8,176	0.7%
UCAA (6)	37	76	2,197	2,000	100,080	98,080	4904.0%
Total	<u>\$21,924,289</u>	<u>\$12,057,114</u>	<u>\$22,388,949</u>	<u>\$23,209,726</u>	<u>\$23,293,074</u>	<u>\$83,348</u>	0.4%

(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 number of transactions processed in 2024 is not expected to reach the anticipated growth rate over 2023 volumes. The 2025 budget is based on the reduced volume of transactions projected in 2024 and includes a \$0.90 price increase based on a 4.8% CPI-U adjustment.

Also included in the SERFF revenue line is \$1.0 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 decrease in 2025 based on the number of companies licensed, partially offset by a contractual 3% annual increase in fees.

(2) The NAIC's OPT*ins* 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 \$17.50 or less. OPT*ins*, with 28 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, including electronic payment of quarterly and annual premium taxes. The increase in revenue represents an increase in the number of filings expected in 2024 and 2025. The 2025 budget also includes a \$2.50 increase in the transaction fee, the first price increase in three years. Insurance regulators and filing companies benefit from an automated filing and payment system, while the NAIC processes billions of dollars in payments.

(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 36 jurisdictions, with one additional jurisdiction in the contracting process. 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, as well as 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 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. 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 2024 and 2025 is the result of jurisdictions implemented in 2024 producing more continuing education revenue than expected, partially offset by a continuing decrease in the number of producer information reports.

BUDGET ITEM: Transaction Filing Fees (continued)

- (4) The NAIC charges a fee to companies filing life insurance mortality experience data under VM-50, Experience Reporting Requirements and VM-51, Experience Reporting Formats of the *Valuation Manual*. The fee is designed to recoup a portion of the cost of data collection and review, including a significant time commitment from actuaries and other NAIC resources. The fee will increase \$2,500 to \$12,500 in 2025 for the expected 103 filers to partially offset the rising costs of business operations in this highly specialized area.
- (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 2025 budget is based on 173 filings from companies and Lloyd's Syndicates, 10 new applications, and three late fees. The IID expects to receive more applications in 2025 than in 2024.
- (6) The UCAA platform allows insurers to submit expansion applications and foreign corporate amendments to jurisdictions accepting the uniform applications, eliminating the need to submit applications to each jurisdiction in varying formats. The NAIC began a rebuild of this 20-year old platform in 2022 with the delivery of electronic submission of primary and redomestication applications. Additional funding was approved in 2024 to incorporate other UCAA products into the new cloud-based platform, including corporate expansions, domestic corporate amendments, and foreign corporate amendments. To offset the cost of building, operating, and maintaining the new platform, the fee for submissions in 2025 will increase from \$30 to \$40.

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.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
National Meeting Registration Fees (1)	\$2,329,542	\$814,027	\$2,658,734	\$2,689,017	\$2,678,079	(\$10,938)	-0.4%
Insurance Summit (2)	142,452	57,500	253,000	246,896	228,446	(18,450)	-7.5%
International Insurance Forum (3)	40,250	52,500	52,500	42,000	51,700	9,700	23.1%
IAIS Global Seminar (4)	93,312						
	<u>\$2,605,556</u>	<u>\$924,027</u>	<u>\$2,964,234</u>	<u>\$2,977,913</u>	<u>\$2,958,225</u>	<u>(\$19,688)</u>	<u>-0.7%</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 2024 is the result of lower than anticipated registrations for the Spring and Summer National Meetings. Paid registrations are beginning to return to pre-pandemic levels. The number of registrations budgeted for 2025 national meetings vary based on location.
- (2) Revenue from the Insurance Summit is generated by registration fees for participants and sponsorship fees for exhibitors. Registrations and sponsorships for this event have been slow to recover following the pandemic.
- (3) The 2024 forum exceeded registration expectations. The same volume of registrations is expected to continue into 2025.
- (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 2023 NAIC expense categories, with \$570,150 of the total \$692,613 in actual expenses reflected in Commissioner Travel (see Footnote E8a) and National and Major Events (see Footnote E14).

National Meeting Registrations

	Indianapolis			Minneapolis		Hollywood, FL		2025 Budget	
	Fee	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
Advance Registration	\$875	740	\$647,500	750	\$656,250	810	\$708,750	2,300	\$2,012,500
Registration after 30 Days Prior	\$975	98	95,550	105	102,375	115	112,125	318	310,050
Virtual Only Registration	\$875	127	111,125	150	131,250	139	121,625	416	364,000
First Time, Local Registrants	\$488	5	2,440	8	3,904	10	4,880	23	11,224
Subtotal		970	856,615	1,013	893,779	1,074	947,380	3,057	2,697,774
Cancellation Refunds (before 30 Days Prior)	\$438	5	2,190	5	2,190	5	2,190	15	6,570
Cancellation Refunds (Full Refund)	\$875	5	4,375	5	4,375	5	4,375	15	13,125
Subtotal		10	6,565	10	6,565	10	6,565	30	19,695
Total Projected Paid Attendance and Revenues		960	\$850,050	1,003	\$887,214	1,064	\$940,815	3,027	\$2,678,079
Total Projected Registrations (Paid and Unpaid)		2,836		2,983		3,020		8,839	

2025 attendance projections were determined by taking into consideration location and past attendance.

Paid Attendance Statistics:	Spring	Summer	Fall
2024	946 Phoenix	952 Chicago	Denver
2023	883 Louisville	910 Seattle	1,054 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.

Description	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Education and Training (1)	\$398,826	\$149,000	\$368,621	\$368,319	\$350,290	(\$18,029)	-4.9%

- (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 other 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 2024 projection includes an increase in the number of registrants for the NAIC Designation Program and the addition of the Group Capital Calculation Training for Industry, offset by a decline in registrations for training on SERFF. The decrease in registrations for the SERFF training is expected to continue into 2025, partially offset by increased registrations for the NAIC Designation Program, continuation of the Group Capital Calculation Training for Industry, and the addition of the Regulatory Leadership Forum offered biennially in odd numbered years.

BUDGET ITEM: License Fees and Administrative Services

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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
License Fees (1)	\$27,533,456	\$15,076,958	\$30,698,670	\$28,321,250	\$31,731,375	\$3,410,125	12.0%
Administrative Service Fees (2)	3,143,757	1,609,000	3,004,420	3,031,137	2,906,446	(124,691)	-4.1%
Total	\$30,677,213	\$16,685,958	\$33,703,090	\$31,352,387	\$34,637,821	\$3,285,434	10.5%

License fees and administrative services are derived from agreements between the NAIC and NIPR and the NAIC and the Insurance Compact. The agreement between NAIC and NIPR began January 1, 2023, for a five year period. The 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, 2024.

- (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 2024 projection and 2025 budget, as provided by NIPR, are based on strong sales of credentialing and reporting products. The 2025 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 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.

Individuals and business entities looking to obtain or renew licenses in multiple non-resident jurisdictions can utilize NIPR's non-resident licensing or renewal applications. This allows them to submit a single electronic, uniform application for all 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands, typically receiving approval or denial within 48 hours. NIPR also facilitates electronic processing for obtaining or renewing resident and adjuster licenses in most jurisdictions. Without NIPR's web-based option, producers would need to send paper applications by mail to each jurisdiction. Key benefits include (1) lower costs for producers and the insurance industry by using NIPR's uniform application system instead of dealing with the expense of printed mailings and the potential costs of preparing multiple forms if the uniform application is not accepted, and (2) decreased administrative costs for tracking the status of paper applications, as users receive electronic notifications regarding their 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. Based on information provided by the Insurance Compact, the budgeted fee for 2025 is \$39,375 and there is no administrative fee expected for 2024.

- (2) Administrative services fees include 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. Projections for 2024 reflect cost savings realized during 2024 from modified system usage due to increased monitoring by NIPR and NAIC. The 2025 budget captures a full year of these savings.

BUDGET ITEM: Other

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Other (1)	\$77,920	\$317,631	\$473,163	\$256,843	\$254,016	(\$2,827)	-1.1%

- (1) The 2025 budget includes (1) \$224,300 for administrative fees for coordinating examination software renewals; (2) \$25,000 for service level agreements to accept supplemental filings to the Annual Statement through the NAIC's internet filing application for two members; and (3) \$3,750 for rebates related to the use of purchasing cards. The 2024 projection reflects more examination software renewals at the higher service level than anticipated in the 2024 budget. The 2025 budget incorporates this change in expectations but does not anticipate any research grants, which were received in 2024.

BUDGET ITEM: Salaries

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Salaries-Existing Employees (1)	\$65,745,817	\$34,922,809	\$72,728,135	\$72,245,238	\$76,222,489	\$3,977,251	5.5%
Salaries-New Employees (2)					1,863,762	1,863,762	100.0%
Overtime (3)	148,427	80,337	110,379	105,401	100,826	(4,575)	-4.3%
Total	\$65,894,244	\$35,003,146	\$72,838,514	\$72,350,639	\$78,187,077	\$5,836,438	8.1%

- (1) The salary line includes amounts paid to employees such as wages, promotions, and adjustments, as well as accrued paid time off (PTO) and a reduction for expected 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 1, 2024, the NAIC had 541 approved full-time equivalent (FTE) positions.

The majority of the NAIC's staff are in the Kansas City labor market, which has been tight for the past few years. High competition and the specialized nature of many of the NAIC positions creates increased pressure in the labor market for attracting and retaining qualified staff members while being mindful of regulatory budget challenges. To combat the competition for labor in all NAIC labor markets, the NAIC has worked to build a strong work culture offering a hybrid work place, flexible schedules, and competitive compensation. The success of these programs is evident in a decline in staff turnover, causing an over budget variance in 2024 due to fewer and shorter periods of staff vacancies. Also contributing to this variance is a higher than average retention of PTO balances through August 2024. The 2025 budget includes an annual increase for all NAIC staff, an increase for the conversion of positions added in mid-2024 to a full year, and a lower turnover rate than previous budgets. 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.

- (2) The 2025 budget includes requests for 18 full-time employees to support regulatory, technical, and administrative areas. Additional details regarding these resource additions are included in Fiscal 1-SERFF Modernization - 2025 Transition Stages; Fiscal 2-VISION Support Team; Fiscal 3-Enterprise Data Asset Management - Phase IV; Fiscal 4-Monitoring Collateralized Loan Obligations (CLOs); Fiscal 7-Member Customer Relationship Management; and Fiscal 8-Operational Staffing.
- (3) The overtime budget reflects the amount of overtime required to support NAIC functions during the year. Examples include (1) additional hours to support technology; (2) additional hours worked by desktop computer technicians during maintenance; (3) travel time and additional hours for administrative staff who support national meetings and other NAIC events; and (4) additional hours worked by staff to support committee and 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 to meet tight deadlines for the completion of committee research and background materials that is not expected to continue into 2025.

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.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
National Meetings and Major Meetings (1)	\$109,228	\$34,179	\$111,299	\$105,802	\$106,094	\$292	0.3%
Interns (2)	296,356	190,305	385,305	475,250	577,200	101,950	21.5%
Other (3)	465,233	125,341	245,292	220,500	255,000	34,500	15.6%
Total	\$870,817	\$349,825	\$741,896	\$801,552	\$938,294	\$136,742	17.1%

- (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 event. The 2025 budget is based on quotes from venues for those events.
- (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 and the decreased budget for 2025 reflect the continued difficulty in finding individuals interested in short-term employment.
- (3) This line includes post-doctorial resources in the Center for Insurance Policy & Research (CIPR). The increase for 2024 and 2025 is related to the increased demand for these resources.

BUDGET ITEM: Payroll Taxes

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
FICA (1)	\$5,025,182	\$2,864,435	\$5,443,567	\$5,507,249	\$5,938,715	\$431,466	7.8%
Unemployment Compensation (2)	37,028	56,461	96,079	73,263	104,305	31,042	42.4%
Total	<u>\$5,062,210</u>	<u>\$2,920,896</u>	<u>\$5,539,646</u>	<u>\$5,580,512</u>	<u>\$6,043,020</u>	<u>\$462,508</u>	8.3%

(1) The increase in budgeted FICA for 2025 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 2025 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 retirement, health, dental, 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Retirement Benefits (1)	\$4,224,213	\$2,706,776	\$5,758,232	\$5,268,197	\$5,855,065	\$586,868	11.1%
Health Benefits (2)	6,402,408	3,325,241	7,081,653	6,892,859	7,295,151	402,292	5.8%
Group Life and Disability (3)	351,731	207,407	467,407	360,424	563,073	202,649	56.2%
Employee Relations (4)	1,400,398	681,295	1,343,933	1,246,045	1,444,974	198,929	16.0%
Total	\$12,378,750	\$6,920,719	\$14,651,225	\$13,767,525	\$15,158,263	\$1,390,738	10.1%

- (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 \$5.8 million in 2024. In 2025, this expense is expected to increase \$490,000 from projected 2024 expense and \$586,900 from the 2024 budget based on (1) additional staff entering the plan at higher contribution rates, (2) increased salary base from the 2024 merit cycle, and (3) automatic escalation of contribution rates until a preset maximum is achieved. Auto escalation provisions in retirement plans are considered best practice by the U.S. Department of Labor and were mandated by Congress for most plans established after 2022 as part of SECURE 2.0 Act.

Actual expense for 2023 includes an \$816,400 credit related to the NAIC’s defined benefit plan (DBP). In 2017, the Internal Administration (EX1) Subcommittee approved a multi-year strategy to accelerate loss recognition and fully fund the plan with the goal of plan termination. In early 2024, the NAIC began the process to terminate with completion expected by the end of 2024. There is no budget or projected expense for this plan in 2025 or 2024.

- (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 2024 is based on actual claims through mid-2024 and prior year experiences. The 2025 budget for health insurance includes (1) recent claims experience; (2) a change in prescription drug coverage to help stabilize increasing costs; (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 cost of Group Life and Disability coverage during 2024 was higher than expected. The 2025 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 2024 and 2025 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.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$61,828	\$40,315	\$67,988	\$65,270	\$55,653	(\$9,617)	-14.7%
Professional Training (2)	466,369	232,726	684,003	794,478	687,753	(106,725)	-13.4%
Professional Association Dues (3)	118,314	65,053	110,082	103,753	110,307	6,554	6.3%
Total	\$646,511	\$338,094	\$862,073	\$963,501	\$853,713	(\$109,788)	-11.4%

- (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 programs and the cost of those 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 2024 is due to less training necessary during the implementation of the new enterprise resource planning (ERP) software and the increased availability of online courses which are generally at a lower cost. These savings as well as completion in 2024 of biennial certifications needed for Diversity, Equity, and Inclusion (DE&I) Council members and training on the NAIC’s new Education & Training software result in a lower budget for this category in 2025.
- (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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Legal (1)	\$91,332	\$62,315	\$162,315	\$300,000	\$300,000		
Accreditation Team (2)	1,272,101	683,398	1,318,288	1,318,290	1,234,945	(\$83,345)	-6.3%
Royalties (3)	1,661,294	276,142	1,371,009	1,371,386	1,323,237	(48,149)	-3.5%
Benefits (4)	262,167	328,486	623,486	618,400	152,617	(465,783)	-75.3%
Audit (5)	334,103	189,351	422,225	435,560	445,370	9,810	2.3%
Public Awareness (6)	447,061	128,160	581,600	564,000	497,200	(66,800)	-11.8%
Implementation/Upgrade (7)	4,857,305	2,276,827	6,317,345	5,687,643	7,786,675	2,099,032	36.9%
Data Modeling (8)	2,950,000		2,950,000	2,950,000	2,950,000		
Other Professional Services (9)	4,601,990	2,700,808	6,307,058	5,704,282	6,527,462	823,180	14.4%
Total	\$16,477,353	\$6,645,487	\$20,053,326	\$18,949,561	\$21,217,506	\$2,267,945	12.0%

- (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 2025 budget assumes 10 jurisdictions undergoing full reviews, three jurisdictions undergoing a re-review, and 10 jurisdictions undergoing pre-review. The 2024 budget included 11 full reviews, two re-reviews, and 10 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 2025 has one less full review and the majority of reviews have fewer multi-state domestics reducing the number of team members needed to conduct the examination.
- (3) Royalties are paid to (1) financial modelers based on CMBS and/or RMBS dataset sales to third parties (\$1.3 million) and (2) the sale of NAIC products that leverage third-party technology and proprietary data (\$23,237). Fewer dataset sales in 2024 and 2025 will result in a reduction in this expense category.
- (4) Consulting, support, and investment services in the benefits category include assistance with (1) administration of and investment advisory services for the defined contribution and defined benefit retirement plans; (2) actuarial services for the defined benefit retirement plan, including costs to terminate; and (3) benefit renewals. The budget will decrease dramatically in 2025 with the termination of the defined benefit plan in late 2024.
- (5) Audit fees include amounts paid to independent accounting, accrediting, and information technology firms primarily for (1) annual financial examination (\$60,150); (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 (\$209,000); (3) cybersecurity audits (\$150,100); and (4) data confidentiality and availability audits (\$26,100).
- (6) The 2025 budget contains public relations consulting services to support the NAIC's core public 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.

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 2025 budget includes (1) \$200,000 for ongoing work on the Regulatory Information Retrieval System (RIRS); (2) \$370,000 for consumer education, outreach, and advocacy work; (3) \$1,755,000 in staff augmentation and guidance as the NAIC continues work on several high-profile projects; (4) \$1,245,000 for process improvements and automation of back-office systems; (5) \$424,800 for security-related implementations; (6) \$900,000 related to the expansion of member education and training; (7) \$200,000 for continued work on financial analysis solvency tools; (8) \$1,280,000 for post production support for SERFF and UCAA deployments; (9) \$102,000 for *Valuation Manual* (VM-22) field testing work; and (10) \$500,000 to support the existing financial data repository (FDR) system. The 2025 budget also includes consulting dollars for Fiscal 4-Monitoring Collateralized Loan Obligations (CLOs) (\$100,000); Fiscal 6-Financial Data Repository (FDR) - Modernization Proof-of-Concept (\$450,000); and Fiscal 7-Member Customer Relationship Management (\$255,000). The over budget variance in 2024 is driven by the need for additional resources during the implementation of the new learning management system and the development of new and updated trainings to be offered to regulators in the new learning platform as well as support to prepare the existing FDR system for a major upgrade. The budgeted increase in 2025 is primarily due to additional projects requiring consulting resources and the rising cost of those resources.
- (8) Data modeling service fees are fees paid for the modeling of RMBS and CMBS securities owned by insurers and is based on the most current contract.
- (9) Other professional services include (1) \$46,000 for the NAIC's commercial insurance brokerage fees; (2) \$708,200 for expenses related to registration software license fees, transportation, facilities, speakers, photographers, and other outside services for national and major meetings; (3) \$120,000 in banking fees; (4) \$161,300 in fees for the administration, lease, and oversight of the co-location site; (5) \$600,000 in cloud management services; (6) \$270,500 in video and news production services; (7) \$47,300 for cybersecurity services; (8) \$244,000 for technology and business information subscriptions; (9) \$255,500 in consulting services for DE&I and leadership programs; (10) \$231,000 in services related to human capital assets; (11) \$2.7 million in staff augmentation services to fill temporary vacancies in critical but difficult to fill positions and short term resources with specific skillsets; (12) \$737,900 for various activities related to the Catastrophe (CAT) Modeling Center for Excellence; and (13) \$160,000 for various outside services used throughout the association. The 2025 budget also includes services as detailed in Fiscal 1-SERFF Modernization - 2025 Transition Stages (\$82,440) and Fiscal 5-Long-Term Care Insurance Experience Study (\$100,000). The 2024 over budget projection in other professional services is due primarily to additional resources needed to address member services, national meeting production, and back office operations. The 2025 budget incorporates the increases experienced in 2024, an increase in CAT modeling activities, and 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Database Network (1)	\$1,113,186	\$443,452	\$918,160	\$981,823	\$761,653	(\$220,170)	-22.4%
Cloud Services (2)	3,710,516	1,875,123	3,824,858	4,093,796	4,051,459	(42,337)	-1.0%
Securities Valuation Services (3)	2,813,705	1,523,232	3,083,873	3,017,964	3,305,405	287,441	9.5%
Credit Card Fees (4)	481,979	245,530	515,227	508,119	516,565	8,446	1.7%
Other (5)	380,288	147,713	333,918	324,997	261,170	(63,827)	-19.6%
Total	\$8,499,674	\$4,235,050	\$8,676,036	\$8,926,699	\$8,896,252	(\$30,447)	-0.3%

- (1) Database Network expenses budgeted in 2025 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 2024 projection includes a reduction in expense related to the replacement of connectivity services and backup circuits with the new leaseholds for the Executive Office in Washington, D.C. and the Central Office in Kansas City, MO, as well as disconnecting several phone lines. This savings is partially offset by additional connectivity costs at the Spring National Meeting and Commissioners' Conference. The 2025 budget incorporates the savings seen in 2024 and savings from a location change for the 2025 Insurance Summit where Wi-Fi service is provided as part of the contract.
- (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 2024 represents savings in cloud run costs related to continued improvement in system configurations to minimize usage and delays in the implementation of SERFF Modernization functionality. The 2025 budget includes additional run costs for Insurance Compact functionality of the SERFF Modernization project expected to go live November 30, 2024, and the life phase which has an expected go live date of June 30, 2025. 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. Some annual renewals in 2024 were at a higher rate than budgeted. These increases, as well as increases expected with the end of a four-year agreement, will raise expenses in this category in 2025.
- (4) Credit card fees include charges from vendors and banks to settle customer credit card transactions and deposit funds in the NAIC bank account. The increase in fees for 2024 and the budget for 2025 is related to the increase in customer payments via credit card and an increase in budgeted revenues.
- (5) Other computer services included in the 2025 budget represent (1) fees for services used for the online learning platform (\$141,250); (2) fees for processing online registrations for national meetings and other NAIC events (\$35,600); (3) fees for powering the national meeting and Insurance Summit mobile agenda application (\$24,750); (4) employee-based services (\$24,400); (5) applications used to support member initiatives (\$23,000); and (6) technology to scan attendee badges for professional education reporting (\$12,150). The decrease in the budget for 2025 is related to the consolidation of online learning platforms into one system.

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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$1,827,493	\$920,128	\$1,990,980	\$1,979,599	\$2,181,173	\$201,574	10.2%
Non-Staff/Non-Regulator Travel (2)	60,185	10,328	69,498	91,600	67,000	(24,600)	-26.9%
Sales and Marketing Travel (3)	55,625	9,702	50,998	51,715	51,029	(686)	-1.3%
Regulator Travel (4)	2,503,618	1,152,885	2,662,243	3,096,205	3,170,829	74,624	2.4%
International Travel (5)	867,799	391,143	834,932	821,574	847,263	25,689	3.1%
Regulatory Disaster Assistance Travel (6)	113,974	22,823	60,000	60,000	60,000		
Consumer Funding (7)	141,554	49,264	154,885	155,621	155,000	(621)	-0.4%
Total	\$5,570,248	\$2,556,273	\$5,823,536	\$6,256,314	\$6,532,294	\$275,980	4.4%

- (1) Staff travel includes travel to (1) NAIC national meetings for committee staff support; (2) interim committee meetings; (3) jurisdictional visits; (4) catastrophe modeling; (5) member support; and (6) travel to professional seminars and training programs. The increase in 2025 is related to (1) an increase in the number of staff members needed to support national and interim meetings; (2) travel in conjunction with Fiscal 1-SERFF Modernization - 2025 Transition Stages; (3) expanding catastrophe modeling activities; and (4) the increasing cost of travel.
- (2) The 2025 budget for non-staff/non-regulator travel includes (1) \$48,000 for travel expenses for legislators to attend a 2025 NAIC national meeting; (2) \$11,000 for travel and miscellaneous expenses for international regulators sponsored as part of the NAIC International Fellows Program; and (3) \$8,000 for speaker travel for CIPR programs. While the NAIC is committed to fund travel to an NAIC national meeting for one legislator from each member jurisdiction, the budget has been reduced by \$24,600 to reflect actual utilization of this program as reflected in 2023 actuals and the 2024 projection.
- (3) Sales and marketing travel represents travel and trade show expenses related to marketing of SERFF, *OPTins*, SBS, and NAIC education and training programs.
- (4) Regulator travel includes (1) \$342,000 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) \$847,500 to sponsor commissioner and senior regulator travel to all NAIC national meetings; (3) \$261,400 to fund commissioner and senior regulator to travel to the Commissioners' Conference; (4) \$538,300 to fund regulator travel to the Insurance Summit; (5) \$143,600 for commissioner travel to the annual Committee Assignment Meeting, All Commissioner DC Fly-In, and International Insurance Forum; (6) \$279,100 to fund commissioner and senior regulator travel to the Commissioners' Mid-Year Roundtable; (7) \$57,500 for regulator travel for Peer Review examinations; (8) \$135,000 to fund regulator travel to the SBS Summit; (9) \$180,850 for regulator travel to train on Enterprise Data Asset Management; (10) \$258,700 to fund travel to various other regulatory events and meetings such as the Collaboration Forum, DE&I Conference, Investment Analysis Office Briefing, the Financial Analysis (E) Working Group (FAWG), and Market Actions (D) Working Group (MAWG); and (11) \$126,880 for training travel as discussed in Fiscal 1-SERFF Modernization - 2025 Transition Stages. Due to a shift in the timing of deliverables, regulator training on Enterprise Data Asset Management will not start until late 2024 and training on the new SERFF system will move to 2025 shifting approximately \$180,850 and \$86,000, respectively, in budgeted 2024 regulator training travel into 2025. Additionally, the SBS Summit was incorporated into the Insurance Summit in 2024 saving approximately \$135,000. The 2025 budget has been increased to cover the rising cost of regulator travel to NAIC events.
- (5) International travel includes \$485,000 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 2024 projection and 2025 budget reflect the rising cost of travel.

BUDGET ITEM: Travel (continued)

- (6) Projected 2024 expense for Regulatory Disaster Assistance travel represents NAIC's commitment to fund volunteer regulators, if needed, to assist following devastating disasters should they occur during the remainder of the year. The 2025 budget is to ensure needs of this nature will be met, should they arise.
- (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.

BUDGET ITEM: Occupancy and Rental

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

Description	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Rent (1)	\$3,054,601	\$1,537,829	\$3,068,909	\$3,115,417	\$3,074,036	(\$41,381)	-1.3%
Utilities and Parking (2)	847,184	410,991	746,800	816,038	762,370	(53,668)	-6.6%
Warehouse (3)	56,626	38,065	57,176	53,223	49,848	(3,375)	-6.3%
Equipment Rental and Maintenance (4)	813,468	272,611	575,878	651,821	755,171	103,350	15.9%
National and Major Meeting Equipment Rental (5)	73,804	36,736	97,420	89,488	72,031	(17,457)	-19.5%
Total	\$4,845,683	\$2,296,232	\$4,546,183	\$4,725,987	\$4,713,456	(\$12,531)	-0.3%

- (1) U.S. Generally Accepted Accounting Principles (GAAP) requires rent expense, including scheduled increases in rent payments, be recognized as expense evenly throughout the life of the lease. U.S. GAAP also requires incentive allowances, such as leasehold improvement reimbursements and rent reductions, be recorded on the balance sheet and amortized against rent expense over the life of the lease.

Rent expense for the Central Office in Kansas City, MO, at 1100 Walnut is \$148,424 monthly for 108,955 square feet (\$16.35 per square foot), with a lease expiration of February 29, 2036.

Rent expense for the Executive Office in Washington, D.C. at 1101 K Street is \$50,316 monthly for 11,000 square feet (\$54.89 per square foot), with a lease expiration 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 \$55,747 monthly for 18,844 square feet (\$35.50 per square foot), with a lease expiration of June 30, 2027.

- (2) The reduction in the budget for 2025 is related to the reestablishment of the baseline for additional operating cost calculations for the Washington, D.C. and Kansas City, MO, offices under these new lease agreements.
- (3) Warehouse storage was slightly higher in 2023, which continued into 2024. This increase was related to the need to store furniture and equipment for the Kansas City office remodel as well as digitize and shred stored NAIC paper documents. The 2025 budget reflects a return to normal storage needs.
- (4) Equipment rental and maintenance includes the cost to rent and maintain equipment that resides in NAIC offices such as copiers for the NAIC copy center and staff copy areas, computer equipment including laptops, and other business operational equipment. The under budget variance in 2024 is related to the reduction in equipment at the NAIC Central Office during construction. New equipment, including the addition of printers to be used at national meeting, were secured for the new Executive and Central Offices in early 2024. A full year of the cost of the new equipment is reflected in the 2025 budget.
- (5) The 2025 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 at the convention center used for the Spring National Meeting.

BUDGET ITEM: Software License Fees

Item Description: Software licenses fees for products that are essential to NAIC's role in support of regulatory activities.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Software License Fees (1)	\$8,342,811	\$4,993,242	\$10,035,274	\$10,414,055	\$11,881,332	\$1,467,277	14.1%

(1) The under budget variance in 2024 is related to the delay in the first release of the SERFF Modernization platform using software products that are currently being capitalized. The 2025 budget incorporates (1) software costs related to the deployment of segments of the SERFF Modernization and UCAA projects; (2) annual subscription renewal rate increases of approximately 15% and 20%; (3) capacity increases and upgrades to more robust versions of exiting tools; and (4) software costs for Fiscal 4-Monitoring Collateralized Loan Obligations (CLOs) and Fiscal 7-Member Customer Relationship Management. These increases are partially offset by the elimination of software projects that are no longer beneficial to NAIC operations or have been replaced by more powerful tools.

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation and amortization for all capital assets owned as of June 30, 2024 projected capital costs through December 31, 2024, and budgeted capital for 2025.

Description	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$1,012,419	\$323,814	\$666,408	\$619,643	\$769,321	\$149,678	24.2%
Amortization (2)	2,605,964	1,261,603	3,619,683	4,997,451	6,071,779	1,074,328	21.5%
Total	<u>\$3,618,383</u>	<u>\$1,585,417</u>	<u>\$4,286,091</u>	<u>\$5,617,094</u>	<u>\$6,841,100</u>	<u>\$1,224,006</u>	21.8%

- (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 increase in depreciation for 2024 is related to the completion of two leasehold construction projects. The Executive Office in Washington, D.C. was moved to a new leasehold in February 2024. The Central Office in Kansas City, MO, underwent an extensive remodel of the existing leasehold which was completed in May 2024. The 2025 budget includes a full year of depreciation on these purchases.
- (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 2024 is related to deployment of a few major projects five to six months later than expected. The increase in 2025 is related to (1) the remodel of the NAIC Central Office in Kansas City, MO; (2) new leasehold for the NAIC Executive Office in Washington, D.C.; (3) a full year of amortization of Phase I of the ERP project; (4) a full year of amortization of UCAA - Phase I; (5) a full year of amortization of SERFF Modernization - 2022 and 2023 Transition Stages; (6) the addition of amortization for SERFF Modernization - 2024 Transition Stages scheduled for deployment in December 2024; and (7) amortization as detailed in Fiscal 1-SERFF Modernization - 2025 Transition Stages.

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.

	2024 Capital Projection	2024 Capital Budget	2025 Capital Budget
Furniture and Equipment	\$2,992,520	\$2,475,134	
Computer Software	934,021	874,492	\$770,791
Leasehold Improvements	6,048,849	3,486,872	
Consulting	9,735,579	11,788,014	11,711,484
Total Requests	<u>\$19,710,969</u>	<u>\$18,624,512</u>	<u>\$12,482,275</u>

2025 Proposed Capital Expenditures
Unit Cost \$25,000 or Greater

- **SERFF Modernization**
 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.
 - **2024 Transition Stages (\$340,200)** – Work on life filings that began in 2024 will continue into 2025. Capitalized costs in 2025 to continue this work include consulting (\$340,220).
 - **2025 Transition Stages (\$5,874,563)** – In 2025, life and property/casualty users will move into the platform. Capitalized costs for this project in 2025 include consulting (\$5,874,563).
- **IT VISION Systems Enhancements (\$1,511,536)** – This three-year project is designed to provide significant infrastructure upgrades to improve support to the Securities Valuation Office (SVO) and enhance VISION. Upgrades include breaking monolithic applications, such as VISION and AVS+, into smaller applications to allow teams to modernize the specific application to utilize best practice framework and deploy them to the desired NAIC end-state hosting platform. The project has two components in 2025; technology upgrade and CLOs. Capitalized costs in 2025 include consulting (\$808,688 for the technology upgrade portion and \$702,848 for the CLO portion).
- **Uniform Certificate of Authority Application (UCAA) – Corporate Amendment (\$1,635,318)** – 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. The corporate amendment phase 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 2025 include consulting (\$1,635,318).
- **Enterprise Resource Planning (ERP) Software (\$3,120,658)** – In 2022, the NAIC began a project to convert current aging operational applications into a cloud-based software suite. The human capital management portion of the project was completed in mid-2023. Work in 2025 is to continue progress on implementation of accounting, financial management, and procurement. Capitalized costs for this project in 2025 include software (\$770,791) and consulting (\$2,349,8678).

2025 Capital Expenditures

Description	Software	Consulting	2025 Budget
SERFF Modernization		\$6,214,763	\$6,214,763
IT VISION System Enhancements		1,511,536	1,511,536
UCAA - Corporate Amendments		1,635,318	1,635,318
ERP	\$770,791	2,349,867	3,120,658
	<u>\$770,791</u>	<u>\$11,711,484</u>	<u>\$12,482,275</u>

BUDGET ITEM: Operational

Item Description: Operational expenses for the NAIC offices including insurance; office and computer supplies; 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Insurance (1)	\$505,158	\$261,135	\$517,837	\$534,437	\$540,360	\$5,923	1.1%
Telephone (2)	11,140	8,844	8,540	16,570	7,241	(9,329)	-56.3%
Supplies (3)	458,663	341,033	458,212	462,913	436,465	(26,448)	-5.7%
Non-Capital Equipment (4)	710,847	353,094	558,066	349,728	461,042	111,314	31.8%
Mail Services (5)	177,549	89,222	156,788	140,447	168,377	27,930	19.9%
Branding (6)	218,902	127,512	282,839	293,611	305,281	11,670	4.0%
	<u>\$2,082,259</u>	<u>\$1,180,840</u>	<u>\$1,982,282</u>	<u>\$1,797,706</u>	<u>\$1,918,766</u>	<u>\$121,060</u>	6.7%

- (1) Insurance premiums at the May 2024 renewal date resulted in slightly lower fees than budgeted. The 2025 budget includes an increase of 6.5% over existing premiums for the May 2025 renewals.
- (2) Telephone expense continues to decrease as communication methods convert to other technology platforms.
- (3) Supplies include purchases of copy paper, common area supplies, miscellaneous office supplies, and costs to support staff in a hybrid work environment. The 2024 projection includes additional costs incurred to support the Kansas City office during a major remodel and minor supply and equipment costs to build and set up the new Washington, D.C. and Kansas City, MO, offices. The decrease in 2025 is related to the completion of buildout and set up for both offices.
- (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. Spending in 2024 includes the purchase of non-capitalizable furnishings and equipment necessary to set up the new office spaces in Washington, D.C. and Kansas City, MO. The increase in the budget for 2025 is related to the increasing cost of computer equipment and the purchase of equipment for addition of staffing resources as described in the salary section of this budget (see Footnote E1).
- (5) Mail services includes the cost of shipping equipment and materials to NAIC national meetings and other events, express mail services, and items sent through the United States Postal Service (USPS). The increase in mail services in 2024 and 2025 is related to an increase in the cost of express mail services, with the most notable increase related to shipping outside the continental United States.
- (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*ins*, 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 2025 is related to increased attendance at recruiting and diversity events.

BUDGET ITEM: Library Reference Materials

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Library Reference Materials (1)	\$388,412	\$197,921	\$387,120	\$390,291	\$419,982	\$29,691	7.6%

- (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 2025 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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$325,296	\$73,595	\$269,333	\$276,413	\$349,203	\$72,790	26.3%
Hotel Services (2)	3,008,200	1,508,335	2,847,145	2,697,009	2,812,428	115,419	4.3%
Reproductions (3)	85,175	33,378	89,535	90,340	17,729	(72,611)	-80.4%
Audiovisual Services (4)	2,451,447	1,041,270	2,298,405	1,720,032	2,027,643	307,611	17.9%
Interim Meetings (5)	389,316	191,640	353,387	329,476	416,905	87,429	26.5%
Total	\$6,259,434	\$2,848,218	\$5,857,805	\$5,113,270	\$5,623,908	\$510,638	10.0%

In 2023, the NAIC hosted the IAIS Global Seminar in Seattle. The event was open to all attendees with payment of a registration fee and was included in National and Major Meetings revenue (see Footnote R6). Expenses of \$692,613 for this event appear throughout 2023 actuals, \$570,150 in Regulator Travel 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.

National Meeting Locations			
Year	Spring	Summer	Fall
2025	Indianapolis	Minneapolis	Hollywood, FL
2024	Phoenix	Chicago	Denver
2023	Louisville	Seattle	Orlando

- (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 2024 budget included a complimentary welcome reception valued at \$60,000 as a concession for the date change of the Summer National Meeting. There are no concessions in the 2025 budget.
- (2) Hotel services include the cost of (1) regulator and staff breakfasts and lunches; (2) regulator, staff, and industry breaks; (3) electrical support; and (4) other hotel charges. The over budget variance for 2024 is related to an increase in attendance and the rising cost of hotel food and beverage services at the Insurance Summit, Commissioners' Conference, All Commissioner DC Fly-In, and International Insurance Forum. The 2025 budget is based on quotes from host hotels and convention centers which incorporates the increase in attendees seen in 2024. Like other organizations, the NAIC has experienced a dramatic increase in the cost of food and beverage services in recent years.
- (3) The contractor arrangement previously used to provide copy services at national meetings has been replaced with the purchase of internal copy equipment. The 2025 budget represents the cost of copy paper and other supplies used at national meetings and miscellaneous copy services used at smaller events where shipment of equipment is not cost effective.
- (4) Audiovisual 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 current needs and quotes from service providers, which in some cases is designated by the facility. As attendance and the agenda have grown, and more venues are required, the need for extra audiovisual services has also grown. Additionally, the cost of audiovisual services has increased more rapidly than other services. The majority of the over budget variance in 2024 is related to increased services and labor charges at the Spring and Summer National Meetings. The 2025 budget is based on quotes from host hotels and convention centers which incorporates the expected number of attendees.

BUDGET ITEM: National and Major Meetings (continued)

- (5) 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 2024 is related to the unbudgeted Investment Analysis Office (IAO) Briefing, partially offset by cost savings from combining SBS Education Days with the Insurance Summit. The 2025 budget covers (1) the IAO Briefing (\$75,000); (2) the SBS Summit (\$25,200); (3) the Collaboration Forum (\$33,000); (4) hosting legislative and international meetings (\$57,000); (5) peer review examinations (\$15,600); (6) unexpected regulator meetings (\$78,400); (7) leadership and management sessions (\$86,500); and (8) user training for jurisdictions going into production in 2025 and early 2026 as detailed in Fiscal 1-SERFF Modernization - 2025 Transition Stages (\$32,100).

BUDGET ITEM: Education and Training

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Education Programs (1)	\$183,361	\$13,688	\$189,682	\$220,039	\$259,816	\$39,777	18.1%

- (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 under budget variance in 2024 is due to a decrease in the number of Practical Manager trainings provided to member jurisdictions. The 2025 budget incorporates this decrease but includes the Regulatory Leadership Forum, offered biennially in odd numbered years.

BUDGET ITEM: Grant and Zone

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

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	\$1,498,249	\$627,950	\$1,857,269	\$1,730,000	\$1,730,000		
Zone Scholarship Funds (2)	16,408	7,678	32,670	31,000	29,000	(\$2,000)	-6.5%
Zone Expenses (3)	604,145	211,914	707,025	684,000	766,000	82,000	12.0%
Total	\$2,118,802	\$847,542	\$2,596,964	\$2,445,000	\$2,525,000	\$80,000	3.3%

- (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 the year. The 2024 projection assumes carry over funding approved for 2024 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) NAIC allocates funding to NAIC Zones annually to fund activities of the Zones. These activities include Zone conferences, training events, meetings at national meetings, and funding of member training allocations (Zone Scholarship Funds) in addition to NAIC Grant funds. The increase in Zone expenses in 2024 and 2025 is related to the rising cost of travel and events. NAIC funding includes (1) \$2,500 per Zone member, with a minimum of \$60,000 per Zone (\$247,500); (2) \$2,500 per Zone member to be used by the Zones to provide additional training opportunities for their members (\$140,000); and (3) a minimum of \$7,500 per Zone member in unused grant funding reallocated to each Zone at the end of each year (\$420,000).

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.

<u>Description</u>	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Professional Association Dues - NAIC (1)	\$863,189	\$894,668	\$913,998	\$930,772	\$963,924	\$33,152	3.6%
Recruiting and Relocation (2)	322,189	109,891	343,939	330,800	552,372	221,572	67.0%
Bad Debt Expense (3)	85,234	(1,043)	83,743	25,000	80,000	55,000	220.0%
Member Relations (4)	14,522	14,768	21,257	15,000	23,875	8,875	59.2%
Total	\$1,285,134	\$1,018,284	\$1,362,937	\$1,301,572	\$1,620,171	\$318,599	24.5%

- (1) Professional Association dues includes \$910,000 for the NAIC's annual membership in the IAIS, an increase of \$32,421 over the dues paid in 2024. The IAIS is expected to increase the NAIC's dues by 2.8% in 2025, calculated in Swiss Francs. The increase was 4.0% in 2024 and 4.5% in 2023. The NAIC bears the currency conversion rate risk on this membership fee. The conversion rate at the time the 2024 budget was calculated was higher than the rate paid.
- (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 2024 projection reflects the continued use of outside firms to secure qualified individuals in today's remote labor market and the increasing cost of those services. The 2025 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. There has been an increase in uncollectible customer stop payments since 2023. The 2024 projection and 2025 budget represent a continuation of this trend.
- (4) The member relations account includes expenses associated with the Dineen Award and recognition of NAIC Members and Officers. The increase in spending in this category is due to an increase in the cost and number of items purchased.

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	2023 Actual	6/30/2024 Actual	12/31/2024 Projected	2024 Budget	2025 Budget	Increase (Decrease)	Percentage
Interest Income (1)	\$1,805,114	\$971,607	\$1,576,199	\$1,254,000	\$1,200,000	(\$54,000)	-4.3%
Dividend Income (2)	3,672,206	1,828,348	3,247,224	2,400,000	2,400,000		
Realized Gain/(Loss) (3)	(1,069,046)	2,454,379	2,776,141				
Unrealized Gain/(Loss) (3)	12,960,261	2,206,019	7,771,542				
Investment Fees (4)	(268,179)	(114,168)	(262,121)	(360,000)	(324,000)	36,000	-10.0%
Total	\$17,100,356	\$7,346,185	\$15,108,985	\$3,294,000	\$3,276,000	(\$18,000)	-0.5%

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; and (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 August 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 2024 is driven by the current interest rate environment. The 2025 budget anticipates a decrease in interest rates.
- (2) Dividend income is projected based on current and historical dividend receipts. The 2024 projection is expected to exceed budget based on the current financial markets and mix of NAIC investments. Budgeted 2025 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 U.S. GAAP when reporting actual financial results but are not budgeted due to the unpredictability of financial markets. Realized gains as of August 31, 2024, 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 2024 and during 2025.
- (4) U.S. 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 decrease from the 2024 projection based on current market trends.

**2025 BUDGET WITH FISCAL IMPACT STATEMENTS
FISCAL IMPACT STATEMENTS**

Fiscal Number	Description	2025 Budget			Net Impact 2025 Budget
		Capital Expenditures	Revenues	Expenses	
	Total Revenues Over/(Under) Expenses Before Fiscals and Investment Income	\$6,607,712	\$163,686,292	\$169,145,423	(\$5,459,131)
1	SERFF Modernization - 2025 Transition Stages	5,874,563	15,000	715,983	(700,983)
2	VISION Support Team			428,004	(428,004)
3	Enterprise Data Asset Management - Phase IV			718,990	(718,990)
4	Monitoring Collateralized Loan Obligations (CLOs)			560,883	(560,883)
5	Long-Term Care Insurance Experience Study			100,000	(100,000)
6	Financial Data Repository (FDR) - Modernization Proof-of-Concept			450,000	(450,000)
7	Member Customer Relationship Management			453,651	(453,651)
8	Operational Staffing			1,057,016	(1,057,016)
	Total Fiscal Revenues Over/(Under) Expenses	5,874,563	15,000	4,484,527	(4,469,527)
	Investment Income		3,276,000		3,276,000
	Total Revenues Over/(Under) Expenses After Fiscals and Investment Income	<u>\$12,482,275</u>	<u>\$166,977,292</u>	<u>\$173,629,950</u>	<u>(\$6,652,658)</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	SERFF MODERNIZATION – 2025 TRANSITION STAGES
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2025
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2025
TOTAL REVENUE EXPECTED (2025):	\$15,000
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$715,983
(2026):	\$656,494
TOTAL CAPITAL REQUESTED (2025):	\$5,874,563
(2026):	\$0

I. Executive Summary:

The NAIC’s System for Electronic Rates and Forms Filing (SERFF) was launched collaboratively by regulators and industry more than 25 years ago and was designed to provide an efficient process for required insurer product filings. The system handles requirements for product filing submissions, allowing companies to submit product filings to multiple jurisdictions for review by the appropriate regulators. Today, 53 jurisdictions accept SERFF filings made by more than 6,500 industry users and the system processes more than 500,000 transactions every year for Life, Health, and Property & Casualty (P/C) filings as well as serves as the platform for the Insurance Compact and Affordable Care Act (ACA).

The SERFF platform was last upgraded 18 years ago and expanded in 2012-2013 in response to the ACA. However, an in-depth assessment conducted by an outside vendor in 2020 validated the need to ensure consistent and efficient review of product filings through automating manual processes and providing the ability to gain insights from the data stored in SERFF. The assessment also determined it would be impractical and unwieldy to modify the current platform to meet these needs.

In 2021, the NAIC moved forward with a Mobilization and Pilot phase with two main objectives. First, to select the best and most robust technological solution 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.

The 2022 fiscal covered funding of transition stages T1, T2, and initial work of T3.1, as defined in the roadmap and transition plan shown in Table 1. The T1 and T2 stages included new search functionality

and improved reporting for the existing SERFF application, and was planned for deployment in late 2022, with work beginning on stage T3.1 to transition the Insurance Compact expected to begin in 2023. However, transition stage T1 was ultimately released to production in the first quarter of 2023, with a phased rollout completed in May. Transition stage T2 followed shortly and was released to production in June. Development thus far is enabling the use of new technology in document management and workflow and the use of new developments in artificial intelligence (AI) for text processing is proving beneficial to the product filing and review process.

The 2023 and 2024 fiscals included work on the T3 stages. T3.1, as noted in the SERFF Modernization – 2024 Transition Stages fiscal, was originally estimated for release in the summer of 2024. However, delays in the T1 and T2 stages have moved its estimated completion date to November of 2024. While transition stage T3.1 was delayed from its original estimated completion date, the project development is on a positive track and the technology piloted in 2021 is meeting the needs of the new SERFF system.

Table 1

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

This fiscal requests funding to continue the modernization work in 2025. The team will complete the bulk of the work on T3.2 (Life), which is estimated for completion in the summer of 2025. Additionally, the fiscal will fund the work for transition stage T3.3 (Property & Casualty), which is expected for delivery at the end of 2025.

Table 2 shows the current timeline for the remaining transition stages. Each stage’s start date will be determined by the completion date of the previous stage with all remaining project stages adjusted accordingly.

Table 2

Transition Stage	T3.1 (Compact)	T3.2 (Life)	T3.3 (P/C)	T3.4 (Health)	T4 (Plan Mgmt)
Estimated Start	Underway	October 2024	April 2025	October 2025	January 2026
Estimated Completion	November 2024	June 2025	December 2025	April 2026	November 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 the building blocks that can be pulled together without writing large amounts of programming code and offers more flexible workflows with faster feature delivery.

In 2025, the key deliverables are:

- Provide training sessions, subject to a registration fee from industry participants.
- Complete phase T3.2 so Life users can utilize the platform.
- Complete the majority, if not all, of the development work required for P/C users (T3.3).
- Provide training for regulators going into production in 2025 or early 2026.
- Continue requirements gathering events with Health users in anticipation of undertaking this and future stages. This effort has been ongoing since project inception through jurisdiction visits, focus groups, and Product Steering Committee sessions.
- Develop web services following each transition stage.
- Continue NAIC staff development on the low-code platform and the other technologies used in the new system so staff can support it as stages are completed.
- Explore more artificial intelligence (AI) solutions for regulators.

III. Initiative Benefits:

The overarching goal of the modernization effort is to gain operational efficiencies while taking advantage of technology and innovation opportunities available today. Both regulator and industry users are increasingly resource constrained and 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 easier access to data. 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 such that it can integrate with advances in innovation such as AI, business intelligence, machine learning, and other data analysis tools, with an underlying goal of improving speed to market. The system's architecture will allow information from other NAIC systems to be more readily available, which will display all the information needed to complete the review in one easy to use location.

IV. Financial and Organizational Impact:

This fiscal requests funding in 2025 for phases T3.2 and T3.3, which includes two full-time positions needed to support ongoing operations and transition work. These positions include a platform engineer and a portfolio manager. The platform engineer will provide infrastructure support for the modernized SERFF system. As this system is built on technology that is not currently in wide use at the NAIC, additional expertise is warranted. The portfolio manager will oversee and coordinate continued development across the SERFF system and will eventually integrate more products. These positions are expected to come on board in early 2025 and have an expected cost of \$290,225 in 2025 and \$344,914

in 2026. There will be an operational impact to bringing these new positions on board. The People Operations and Engagement Division will be needed to help hire the best candidates for each position.

In addition to personnel, the fiscal requests \$82,440 for temporary staffing to assist with other ongoing operational support needs so current staff can remain dedicated to the SERFF Modernization Project. Expenses of \$187,528 for staff travel to insurance departments and for regulators to travel to the NAIC for training have also been included.

Capitalized costs of \$5,874,563 include 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.

See **Attachment I** for additional information.

V. Risk Management Plan:

The main risk for the initiative, as seen in 2023 and 2024, is the production schedule. The learning curve for SERFF was steeper than anticipated for the consulting vendor, as the system is more complex than was initially understood. This is a very large project with both onshore and offshore resources being utilized and, as such, it took longer than expected to form the development teams and get them working efficiently. Senior staff worked with the resource partner to adjust several items such as team size, number of teams dedicated to the build, and the combination of resources to maximize efficiency balanced with the learning curve for NAIC staff so internal resources can support SERFF when the project is complete.

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

Another risk is that qualified candidates may be hard to find and work 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:

Multi-factor authentication will be part of the modernized SERFF, which will increase security and is consistent with best business practices. There is also 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 put through the NAIC's Security Vendor Assessment process. Product contracts are also reviewed by the security team.

The new 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 NAIC's confidentiality requirements.

2025 Budget

**SERFF Modernization - 2025 Transition Stages
Project Cost Analysis**

**Anticipated Start Date: January 2025
Anticipated Completion Date: December 2025**

Description	2025 Total	2026 Total	2027 Total
Revenues:			
Registration Fees	\$15,000		
Total Revenues	15,000		
Expenses:			
Salary and Benefits	290,225	\$344,914	\$363,651
Consulting	82,440		
Regulator Travel	126,880		
Staff Travel	28,548		
Interim Meetings	32,100		
Amortization (recognition of capital consulting)	155,790	311,580	311,580
Total Expenses	715,983	656,494	675,231
Revenues Over (Under) Expenses	(\$700,983)	(\$656,494)	(\$675,231)
Capital Purchases:			
Consulting	\$5,160,000		
Staff Augmentation	714,563		
Total Capital Purchases	\$5,874,563		

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	VISION SUPPORT TEAM
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	CHARLES THERRIALT, DIRECTOR – SECURITIES VALUATION OFFICE
REQUESTED INITIATIVE START DATE:	FEBRUARY 1, 2025
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$428,004
(2026):	\$629,355
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary:

NAIC's VISION platform, utilized by the NAIC's Capital Markets and Investment Analysis Office in New York, is a comprehensive database and analytics system that is designed to support insurance regulation by providing robust tools for data collection, analysis, and reporting. The platform enables regulators to monitor and evaluate certain insurance company investment holdings, assess market trends, and ensure compliance with regulatory standards. By offering detailed insights and facilitating data-driven decision making, VISION enhances regulatory oversight and promotes transparency and stability within the insurance industry.

As with any system, continued enhancements and improvements are needed to ensure the application maintains functionality, meets changing requirements, and serves the needs of the Capital Markets and Investment Analysis Office. The number of enhancements and improvements needed by regulators to keep up with changes and innovation in financial markets have not slowed or wavered in a decade and there is at least five years of work currently in front of the teams. This workload does not consider the potential for additional enhancements if requested or directed by the Valuation of Securities (E) Task Force or the Financial Condition (E) Committee. For nearly a decade, software for the VISION platform was developed and maintained by approximately 50% contractors and 50% NAIC staff. However, due to the size and complexity of the latest redesign, 90% of the work is being completed by contractors.

While contracting is an excellent solution for short-term resource needs, maintaining flexibility, and speed of delivery, it is not optimal for long-term ongoing system maintenance and evolution. Due to the extent of the work currently in the pipeline, adding a support team of full-time employees will be more cost effective than utilizing contractors.

Accordingly, this fiscal requests the addition of five headcount to be combined with existing full-time staff to create a support team to address the immediate and long-term development needs.

II. Key Deliverables:

The five new full-time positions are expected to be hired and brought on board in early 2025.

III. Initiative Benefits:

The hiring of an additional support team, consisting of five technical employees, will greatly lessen the timetable to complete product enhancements and will allow work noted in the IT VISION System Enhancements – 2024 fiscal to progress in a timelier manner. Having multiple teams that can work on various aspects of a project simultaneously will alleviate bottlenecks that occur when a single team is overloaded with tasks. While this team will work on numerous projects, several key items of note include:

- VISION Technology Upgrade — This project is to perform significant infrastructure upgrades to improve the ability to support the Capital Markets and Investment Analysis Office and enhance VISION for the foreseeable future.
- AVS+/VISION Securities Usage Fees — This project, as identified in *State Connected* (available on NAIC’s web page at <https://content.naic.org/about/state-connected>), will create a system infrastructure that will permit a new fee structure to be implemented for AVS+ and most security filings in VISION.
- Multiple Issuer and Security Identifiers (MISI) — This project is based on an industry standard reference service and incorporates additional issuer and security identifiers with alias identifiers and imports relevant history into VISION and AVS+, as needed.
- Filing History Data for VISION — This project 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.
- Filing Issuer/Issue Detail (Document Management) — This project will work in conjunction other related initiatives 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.

IV. Financial and Organizational Impact:

The financial impact of this project, consisting of salaries and benefits, will be \$428,004 in 2025 and \$629,355 in 2026 (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 hire the best candidates for each position.

V. Risk Management Plan:

There is a risk that qualified candidates may be hard to find and work 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.

Existing support teams are already stretched with multiple teams having 18+ resources reporting to a single manager. A reorganization of the leadership is planned and will use two existing headcount to improve the manager-to-staff ratio.

VI. Security Impact:

The VISION system collects and stores material non-public, confidential information and data that must be treated with the same level of care as that of personally identifiable information (PII). However, there is no confidential information that is part of these development projects. Nonetheless, all positions will need to abide by NAIC employment policies and procedures. These positions will be subject to the NAIC's confidentiality requirements. No other security risks are incurred with this request.

2025 Budget

VISION Support Team
Project Cost Analysis

Anticipated Start Date: February 2025
Anticipated Completion Date: Ongoing

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Salary and Benefits	\$428,004	\$629,355	\$661,491
Total Expenses	428,004	629,355	661,491
Revenues Over (Under) Expenses	(\$428,004)	(\$629,355)	(\$661,491)

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	ENTERPRISE DATA ASSET MANAGEMENT – PHASE IV
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	TODD SELLS, DIRECTOR – FINANCIAL REGULATORY POLICY & DATA
REQUESTED INITIATIVE START DATE:	FEBRUARY 1, 2025
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$718,990
(2026):	\$232,984
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary:

The NAIC currently has several databases that contain different types of data and information. These databases, such as the Financial Data Repository (FDR), Market Conduct Annual Statement (MCAS), and State-Based Systems (SBS), are accessed separately, requiring regulators to use different links and tools for each one. This setup makes it inefficient for regulators to use data from multiple databases and hinders their ability to take full advantage of the data the NAIC has to offer. Furthermore, varying system platforms within these databases limits the ability to modify tables to improve the usefulness of specific datasets. For example, modifying the FDR table structure to create more efficient Tableau dashboards is not possible without causing disruptions for those already using the existing structure. Implementation of 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 undertook a project to develop a new enterprise data platform. The project’s first two phases focused on establishing the central data team and exploring technology options and structure. The initial EDP was built using core data from MCAS, other market conduct systems, and FDR.

Phase III introduced data structures as well as onboarded additional data sets to the EDP, including SBS, the System for Electronic Rates and Forms Filings (SERFF), Online Premium Tax for Insurance (OPT^{ins}), and key data calls. The central data team further enhanced the platform by implementing new tools, including an enterprise data catalog. The catalog is a comprehensive inventory of an organization's data

assets which is designed to help users discover, understand, and manage data more effectively. This phase will also include training regulators in late 2024.

Phase IV will build on the successes of previous phases, which delivered a cloud-based enterprise data platform populated with valuable financial and regulatory data and introduced new tools for data discovery, analysis, and reporting.

This phase will focus on enhancing flexibility for both members and NAIC development teams. A major enhancement will be the provision of access to well-documented and governed data assets through an enterprise data catalog. When finalized, this catalog will offer valuable context and location information, making it easier for users to find and understand the data.

Ongoing training initiatives will continue to familiarize regulators with enhanced data models and self-service analytics tools. Additionally, other NAIC datasets will be made available from the platform.

A key deliverable of Phase IV will be the creation of a data portal. This portal will provide a single access point for self-service data retrieval, customizable analysis, visualization tools, and NAIC-generated reports, offering members essential insights into their markets. The portal will serve as a centralized hub for insurance regulators to access raw data and reports which are essential for regulatory oversight. By leveraging the EDP, the portal will eliminate inefficiencies associated with fragmented data silos, ensuring access to governed and curated data.

II. Key Deliverables:

- Key data assets curated in the enterprise data catalog will be made available to regulators and NAIC staff.
- Portal developed and operational, providing a central location for access to data, reports, and tools.
- Expand the availability of data assets in flexible structures through various tools and reports.
- Enhance the availability of flexible tools and processes, making data access easier for non-technical regulators and staff.
- Increase data governance maturity through the expansion of the NAIC data steward role.

By meeting these deliverables, Phase IV of this project will significantly enhance the accessibility, usability, and governance of critical data assets, ultimately providing regulators with better tools and insights for effective market oversight.

III. Initiative Benefits:

This phase of the EDP will offer significant benefits to insurance regulators and NAIC staff. By providing a comprehensive enterprise data catalog and a data portal, stakeholders will gain streamlined access to well-documented, governed, and curated data assets. This will facilitate more efficient data retrieval, customizable analysis, and advanced visualization tools, eliminating inefficiencies from fragmented data silos.

The ongoing training will empower regulators with enhanced data models and self-service analytic tools, fostering greater independence and proficiency. Overall, these advancements will enable more effective regulatory oversight, improved decision-making, and enhanced operational efficiency, leading to better market insights and outcomes.

IV. Financial and Organizational Impact:

The project is anticipated to begin February 2025, following the completion of Phase III.

This fiscal is requesting a budget of \$718,990 in 2025 and \$232,984 in 2026 for new software subscriptions, consulting resources for portal development, and one new staff member to support development and provide ongoing support for the portal (see **Attachment I**).

Funding for consulting is requested for the project duration only, while staff and cloud software costs will continue past 2026. The financial impact of this project is summarized below.

Consulting

The fiscal requests a consulting budget of \$626,400 (\$574,200 in 2025 and \$52,200 in 2026) for two web developers to augment the enterprise data team to support the full implementation of the data portal.

NAIC Staff

The fiscal requests approval for one full time staff member for the ITG enterprise data team to develop and maintain the data portal. The expense associated with this new position is anticipated to be \$144,790 in 2025 with a start date of March 2025.

V. Risk Management Plan:

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

Risk	Mitigation Plan
As more datasets are integrated into the EDP, the need for additional data engineering activities and resources will increase.	Over the past year, NAIC has hired data engineers, which have accelerated the process of data onboarding and support. Looking ahead, the growth in datasets and their usage will necessitate further expansion of the data engineering team.
Data governance is essential for maximizing the value of data as a strategic asset. It ensures that data is reliable, secure, and used effectively across the organization. As more datasets are added to the EDP, the responsibilities of data stewardship and ownership will increase. The current stewards, who already have day-to-day duties, may struggle to maintain data governance assets effectively due to this additional workload.	Implementing a data catalog and governance tool will simplify daily data governance tasks. Continuous training for data stewards and other stakeholders is essential to keep them updated on best practices.
As data is onboarded to the EDP, the process by which it is consumed will constantly need to be evaluated. Good data modeling is crucial for leveraging data effectively, ensuring data quality, and supporting the organization's strategic goals.	The enterprise data team plans to review current data model strategies and industry methodologies. This will include evaluating various tools to support the data modeling process as well as collaborating with data stewards, owners, and consumers.

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 data sets by applying standardized processes and implementing the oversight of data stewardship. These additions will allow the organization to identify all 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 a number of NAIC systems. However, the NAIC masks the sensitive data in all source systems in such a way that it is of no or little value to unauthorized intruders while still being usable by software or authorized personnel.

Role-based access controls are used to ensure data is only available to appropriate user personas and Multi-Factor Authentication (MFA) is required to authenticate users accessing the data stored within the platform.

2025 Budget

**Enterprise Data Asset Management - Phase IV
Project Cost Analysis**

**Anticipated Start Date: February 2025
Anticipated Completion Date: Ongoing**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Salary and Benefits	\$144,790	\$180,784	\$188,858
Consulting	574,200	52,200	
Total Expenses	718,990	232,984	188,858
Revenues Over (Under) Expenses	<u>(\$718,990)</u>	<u>(\$232,984)</u>	<u>(\$188,858)</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	MONITORING COLLATERALIZED LOAN OBLIGATIONS (CLOs)
REGULATOR/BUSINESS SPONSOR:	CARRIE MEARS, CHAIR OF THE VALUATION AND SECURITIES (E) TASK FORCE
NAIC STAFF SUPPORT:	ERIC KOLCHINSKY, DIRECTOR – STRUCTURED SECURITIES GROUP
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2025
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$560,883
(2026):	\$508,952
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary:

The NAIC plays a vital role in the state-based system of insurance regulation by providing expertise, data, and analysis to help insurance regulators effectively oversee the industry and, most importantly, protect consumers. A key aspect of regulation and consumer protection is ensuring that regulators are aware of any material risk an insurer may face, whether operational or investment related. Since risks of all types can impact an insurer’s ability to pay claims, it is essential that an insurer’s investments are transparent and properly disclosed to stakeholders. To support these efforts, the NAIC is responsible for independently conducting risk assessments on certain insurer-held investments, ensuring regulatory oversight and financial stability.

The NAIC’s Structured Security Group (SSG) is one division that performs such analysis by completing specialized modeling analysis for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), both of which are highly structured debt-based investments.

Recently a different asset class, collateralized loan obligations (CLOs), has experienced significant growth. While CLOs may appear functionally similar to RMBS and CMBS investments, they differ in one key aspect. Rather than being backed by mortgages, CLOs are typically composed of packaged corporate loans with low credit ratings or loans issued to private equity firms.

Although CLOs share certain features with RMBS and CMBS investments, such as subordinated cash flows, they also exhibit distinct structural differences from traditional mortgage-backed securities. Most CLOs are actively managed, meaning the pool of underlying assets can change during a predefined reinvestment period, typically lasting four to five years after origination. One of the most significant deviations from other structured products is the unique feature that allows CLO managers to divert excess cash to pay down senior notes. This mechanism has contributed to a strong historical credit performance for senior-rated CLO tranches. However, the amount and timing of cash flows, especially for non-senior investments, can vary significantly. Additionally, many CLOs have the option to make payment-in-kind payments to junior tranches, where instead of receiving cash the principal balance owed increases. This further amplifies the uncertainty surrounding cash flow timing and receipt. This uncertainty, combined with the potential for capital arbitrage as briefly described below, has prompted extensive discussions by the Valuation of Securities (E) Task Force.

All investment types are subject to a risk-based capital (RBC) charge, which represents the amount insurers must hold based on an investment's underlying risk. As the risk of an investment increases, so does the corresponding capital charge. However, CLOs can recharacterize investment structures in such a way that if the underlying assets were held directly rather than within a CLO, the associated RBC charge could differ—often increasing substantially.

These factors, combined with the increased CLO exposure of \$247.6 billion as of year-end 2022, prompted the Task Force to direct the SSG to assume the analytic function and independently model CLOs for regulatory purposes. This modeling will provide an independent assessment of CLO investments, which may directly affect their valuation and indirectly influence their RBC, ensuring both are more closely aligned with the actual financial risk of the investment.

Requiring independent reviews of certain investments has been a long-standing priority for the Task Force and aligns with its existing directives to model other structured securities. Although the specifics of this fiscal do not cover the full extent of the modeling, the methodology will continue to be developed in coordination with regulators over the coming months. All assumptions and related documentation will be made publicly available on the SSG's website.

II. Key Deliverables:

NAIC designations or stress test results for insurer-owned CLOs will be provided on an annual basis. Additionally, the NAIC plans to post supplemental unofficial results throughout the year.

III. Initiative Benefits:

The primary benefit of this initiative is to ensure regulators receive consistent independent analysis for this large, complex, and growing asset class. While the main advantage is for regulators, insurers will also benefit from a transparent and consistent methodology for the regulatory evaluation of CLO investments.

IV. Financial and Organizational Impact:

This project will necessitate the purchase of additional analytical software to accurately model CLOs according to the methodology ultimately approved by the Task Force. Additionally, one full-time employee will be responsible for managing the modeling process, software application, ongoing CLO education, reporting, and analysis for regulators.

The analytical software is projected to cost approximately \$255,000 with additional implementation costs of \$100,000. Fully loaded staffing costs are estimated to be \$205,883 in 2025. Both the software and staffing expenses will be ongoing costs necessary to support the initiative (see **Attachment I**).

V. Risk Management Plan:

CLOs currently benefit from capital arbitrage due to the lack of an independent, consistent, and arbitrage-free mechanism for determining appropriate NAIC designations. This asset class, which is large, complex, and growing, has been identified as a concern by the Task Force. Consequently, this fiscal aims to fulfill a directive from the Task Force, which has been endorsed by the Financial Condition (E) Committee.

To mitigate uncertainty for insurers, the Task Force and its support personnel have been conducting regular ad-hoc meetings with insurers and other interested parties. These meetings have facilitated discussions on proposed modeling techniques and assumptions, allowing regulators and industry representatives to collaborate on developing a model for Task Force approval.

While communication about CLO modeling has been ongoing through the Task Force and the Financial Condition (E) Committee, the NAIC plans to launch a communication campaign. This will include presentations at trade groups, educational seminars, and other venues to ensure stakeholders are informed about the availability of designations for financial reporting purposes.

The main risk associated with this project is a potential delay in modeling and reporting NAIC designations. In such a scenario, insurers would need to continue using designations mapped from ratings provided by nationally recognized statistical rating organizations (NRSROs). Once the necessary infrastructure is established, the results will be used for year-end reporting. Any failure to produce these results could disrupt the normal reporting cycle. However, this risk is mitigated by NAIC staff's extensive experience with similar production timelines for RMBS and CMBS designations.

VI. Security Impact:

The addition of CLO modeling will introduce a new function for NAIC personnel. However, the technological infrastructure needed for reporting and delivering modeled results will be integrated into existing capabilities. Although redesigning the infrastructure is a substantial undertaking, the NAIC will leverage established change management and testing procedures throughout both the build and production phases.

2025 Budget

**Monitoring Collateralized Loan Obligations (CLOs)
Project Cost Analysis**

**Anticipated Start Date: January 2025
Anticipated Completion Date: Ongoing**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Salary and Benefits	\$205,883	\$253,952	\$264,324
Consulting	100,000		
Software	255,000	255,000	285,600
Total Expenses	560,883	508,952	549,924
Revenues Over (Under) Expenses	<u>(\$560,883)</u>	<u>(\$508,952)</u>	<u>(\$549,924)</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	LONG-TERM CARE INSURANCE EXPERIENCE STUDY
REGULATOR/BUSINESS SPONSOR:	LONG-TERM CARE INSURANCE (B) TASK FORCE
NAIC STAFF SUPPORT:	JEFF JOHNSTON, CHIEF REGULATORY AFFAIRS OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2025
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2026
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$100,000
(2026):	\$100,000
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary:

The Long-Term Care Insurance (LTCI) product has been on the market for 40 years and has proven to have challenging economic and actuarial elements. As such, LTCI is a top priority for insurance regulators as they attempt to balance consumer protection and solvency for the years ahead. The Long-Term Care Insurance (B) Task Force and its Long-Term Care Insurance Actuarial (B) Working Group have been focused on developing insights, providing recommendations to address issues, and providing actuarial assistance for appropriate LTCI rates, rating practices, and rate changes. Accordingly, having current data of LTCI morbidity experience is important to regulators and industry in addressing issues.

Since 2019, the NAIC has been pursuing several potential solutions to address the crisis seen in the LTCI marketplace, including the formation and launch of the LTCI Multi-State Actuarial Rate Review Framework (MSA Framework). Addressing the challenges in the LTCI marketplace continues with significant focus on designing a single actuarial rate increase review approach to improve the predictive nature of the work undertaken by the multistate actuarial team. As the morbidity experience associated with LTCI policies is a key assumption for insurers and the MSA Framework, insurance regulators would greatly benefit from an updated LTCI experience study.

Additionally, regulators rely on experience reporting to evaluate the financial performance of LTCI business. Financial performance impacts reviews of rate increases and insurer solvency positions. A weakness in experience reporting has been the lack of complete and transparent LTCI morbidity data as current data tables are outdated or not transparently available to regulators.

The Society of Actuaries (SOA) Research Institute has played an important role in studying the variety of emerging morbidity experiences on LTCI policies. The last formal study was released in 2020 with industry data collected from calendar years 2000 through 2016. The need for an updated study using more current experience data is imperative considering Actuarial Guideline 51 regulation and is heightened with LTCI benefits being impacted by the recent COVID-19 pandemic. The pandemic and changes in healthcare patterns have influenced several LTCI experience variables, including claim incidence, claim continuance, claim utilization, and sites where care is provided. While the proposed experience study will begin in 2025, it will collect data through 2023.

Recent industry surveys from the SOA indicate that at least 60% of industry would be willing to contribute data to the next LTCI study. With the NAIC's sponsorship and active encouragement of the industry, the proposal is expected to drive participation from insurers to 80% or higher.

II. Key Deliverables:

The key deliverable is a current LTCI morbidity experience study. Additionally, in exchange for the NAIC's sponsorship, the SOA would provide a series of educational overviews from the study for regulators from the time the study begins through the full completion of the study. In addition, access to study results and interaction with SOA staff regarding the discovery of additional trends from the data would be made available to the NAIC and its members.

III. Initiative Benefits:

Current morbidity experience will help improve the accuracy of reviews of LTCI-related reserves and solvency as well as rates. The completed study will provide comprehensive information on the industry's LTCI morbidity experience on claim incidence, claim continuance, and claim utilization.

The NAIC's Long-Term Care Insurance (B) Task Force and regulators will be significant beneficiaries of the updated study. Morbidity experience associated with LTCI policies is a critical assumption for insurers and the MSA Framework. Updated information will provide valuable insights and guidance for more accurate risk assessment and pricing. Regulators also will benefit from direct involvement and insights gained from the study, as well as an education program delivered by the SOA.

IV. Financial and Organizational Impact:

With a smaller set of companies now offering LTCI products, and the funding of SOA experience studies primarily driven by companies purchasing data sets to assist in their own product development, a funding gap is likely to exist even before initiating and completing the next study. The NAIC membership has been approached by the SOA to provide financial support for the next experience study. The SOA estimates the experience study will cost approximately \$600,000 to complete; two-thirds of which would be allocated to study design, data collection, and review and one-third to creation of an aggregate database, Tableau dashboards, and a report on findings. As with past studies, the Life Insurance Marketing and Research Association (LIMRA) and SOA will continue to provide much of the funding needed – approximately \$400,000, leaving a shortfall of approximately \$200,000. The NAIC's sponsorship would be \$100,000 in 2025 and 2026, for a total sponsorship of \$200,000 (see **Attachment I**).

It is anticipated that a few regulators and NAIC staff will be involved on a limited basis throughout the study period. Current NAIC staff possess the capacity to handle the additional workload.

V. Risk Management Plan:

Two risks to stakeholders if this initiative is approved are as follows:

- Results of the study may be impacted if the anticipated minimum threshold of industry participation is not reached. This risk is mitigated by the NAIC's sponsorship and the Long-Term Care Insurance (B) Task Force and Long-Term Care Actuarial (B) Working Group actively encouraging industry to participate in order to achieve a minimum of 60% and up to 80% or higher participation.
- The SOA's expected completion schedule is not met. This risk is mitigated by SOA's experience in conducting such actuarial research in the past. The risk can be further reduced with the active involvement of regulators and NAIC staff.

VI. Security Impact:

All NAIC staff involved in supporting the insurance regulators, SOA, and LIMRA will need to abide by NAIC employment policies and procedures and confidentiality requirements. 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.

Security risk is decreased by the collection of data by the SOA and LIMRA, not the NAIC. The SOA and LIMRA will process the data and summarize it into a usable format. It is not anticipated that the NAIC would receive any large data sets to retain, rather the information from SOA and LIMRA will be in the form of summaries, averages, and percentiles. The type of data summaries provided to regulators and the NAIC is not expected to include confidential data or personally identifiable information (PII).

No other security risks have been identified to be associated with this project.

2025 Budget

**Long-Term Care Insurance Experience Study
Project Cost Analysis**

**Anticipated Start Date: January 2025
Anticipated Completion Date: December 2026**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Project Sponsorship	\$100,000	\$100,000	
Total Expenses	100,000	100,000	
Revenues Over (Under) Expenses	(\$100,000)	(\$100,000)	\$0

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	FINANCIAL DATA REPOSITORY (FDR) – MODERNIZATION PROOF-OF-CONCEPT
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	TODD SELLS, DIRECTOR – FINANCIAL REGULATORY POLICY & DATA
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2025
ANTICIPATED COMPLETION DATE:	JUNE 30, 2025
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$450,000
(2026):	\$0
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary:

The NAIC is the standard-setting and regulatory support organization for insurance oversight in the United States. In this role, the NAIC houses and supports a range of critical information technologies that assist members in their efforts to effectively oversee and regulate the insurance industry. Among these essential technologies is the financial data repository (FDR), which serves as the cornerstone of insurance regulatory oversight. FDR is a centralized system designed to manage and analyze statutory financial data submitted by insurers and is instrumental in providing regulators with the comprehensive data needed to monitor financial stability, assess risk, and ensure market integrity.

This database captures detailed financial data from more than 4,500 insurers, representing over 98% of premiums written in the U.S. market. It processes and stores statutory financial statements (annual and quarterly), risk-based capital (RBC) reports, and various other supplemental filings. FDR ingests, validates, and organizes this data to support the regulatory needs of member insurance departments, policymakers, and researchers.

FDR is crucial for ensuring the financial health of insurance companies. It maintains over a decade of annual and quarterly filings, offering an unparalleled source of information for financial surveillance and market monitoring. These filings, compiled according to regulatory templates known as “blanks,” form the basis of solvency analysis for regulators. The system includes detailed balance sheets, income

statements, and other key financial documents, providing regulators with timely and accurate data to assess the insurers' health.

Beyond storing financial statements, FDR equips regulators with critical tools for solvency oversight, including automated reports and financial analysis functions. The data contained in FDR supports the generation of key regulatory reports, such as the Insurance Regulatory Information System (IRIS) Financial Ratio Reports, which assess insurers' financial strength and risk exposure. Additionally, FDR data aids in RBC calculations, helping regulators determine the necessary capital levels to protect policyholders and prevent insurer insolvency.

FDR's extensive data repository is not only vital for identifying potential insolvencies but also for monitoring the overall health of the insurance market, enabling regulators to conduct thorough macro and micro financial reviews and identify early warning signs of potential distress. Regulators use FDR to perform detailed market structure and performance analyses, detecting emerging trends and assessing industry dynamics. The data is also utilized by other state and federal regulatory bodies, consumers, and researchers, all to maintain a robust insurance market and protect consumers.

Recognizing FDR's crucial role, the NAIC has initiated a modernization project to transition the repository to a more advanced, modular platform. This modernization aims to create a more automated, user-friendly system that enhances data processing efficiency and accessibility for both internal and external users. The new platform will allow for continuous updates and ensure the system evolves with regulatory and technological advancements.

Accordingly, this fiscal requests funding for a proof-of-concept (PoC) that will explore a third-party vendor solution to both house and manage FDR's technical infrastructure. This exercise will demonstrate the vendor's capabilities and potential benefits from utilizing their technology to fully modernize the FDR platform. This project will further validate key functionalities and provide confidence that a fully scaled version can meet comprehensive requirements. It will offer valuable insights into the transition from the current FDR to an upgraded system, including resource needs, project management, and risk mitigation. By showcasing significant improvements in data processing and in the user experience, this project will play a critical role in shaping the planning for full-scale implementation, ensuring a seamless transition to a more efficient and effective FDR. This modernization will not only enhance the regulatory capabilities but will also set a new standard for insurance regulation, positioning FDR as a pivotal tool in shaping the future of the industry for years to come.

II. Key Deliverables:

The PoC for FDR modernization will offer a comprehensive demonstration of a future-state system's functionality and capabilities. By using test data to perform effective comparisons with the current FDR, valuable insights and data essential for developing plans for a full-scale mobilization of the modernization effort will be provided. This phase will not only validate the performance of the new system but also illustrate future capabilities and will involve testing pilot applications with selected stakeholders, leading to the development of precise measurements and actionable recommendations. These insights will be instrumental in shaping technical recommendations and planning for the full-scale implementation of a modernized FDR, ensuring a smooth transition and enhanced functionality for future insurance regulation.

III. Initiative Benefits:

The PoC will deliver an in-depth preview of the system's advanced features and performance potential as well as showcase how system modernization can significantly reduce the intensive resource burden

currently required to maintain the FDR data structure, specifically related to ongoing updates of the blanks. Another objective is significantly increased automation, including reduced manual efforts for data quality checks, further lowering NAIC resource efforts compared to the current FDR system. Additionally, the PoC will assess improvements in filing acceptance rates, reduction in validation errors, and enhancement of data accuracy and access by regulators.

IV. Financial and Organizational Impact:

This fiscal request seeks a budget of \$450,000 in 2025. The PoC will involve exploratory development but will be representative of a potential final product and as such, the costs will be expensed. The knowledge gained from this PoC will assist in the development of a project timeline and budget which will likely require several years and a sizable financial commitment to implement.

V. Risk Management Plan:

Key risks associated with the PoC are summarized below along with the mitigation plans.

Risk	Mitigation Plan
<p>The PoC anticipates potentially outsourcing to a significantly sized and reputable firm—one that also supports other similarly related regulatory oversight functions. It is crucial to manage potential risks associated with outsourcing, such as ensuring data security, maintaining system reliability, and mitigating any potential loss of control over critical processes.</p>	<p>Contractual provisions will be utilized to specify service levels in various areas to ensure adequate notice time in the event the system is no longer supported, etc.</p>
<p>The PoC may not fully or accurately demonstrate the capabilities required for the full-scale implementation of the modernized FDR. This could result in incomplete insights or misjudgments about the system's effectiveness, potentially affecting the planning and execution of the full build.</p>	<p>The NAIC will ensure a comprehensive scope definition and engage diverse stakeholders for iterative testing and feedback.</p> <p>Detailed performance metrics will also be established, and parallel assessments conducted to compare results with the current system performance. Lessons learned will be documented and used to refine the full-scale implementation plan, addressing any identified gaps and ensuring a smoother transition.</p>
<p>The system will not be suitable for the full-scale FDR modernization project.</p>	<p>Engagement with the alternative vendor proposal will be initiated.</p>

VI. Security Impact:

The FDR system collects and stores both public and non-public confidential information, including RBC data and other regulator-only items. If confidential information is to be utilized in the PoC, the selected firm will adhere to our stringent contractual controls. These controls clearly define the scope of work, deliverables, and expectations, including strict requirements governing access to and use of sensitive information.

2025 Budget

**Financial Data Repository (FDR) - Modernization Proof-of-Concept
Project Cost Analysis**

**Anticipated Start Date: January 2025
Anticipated Completion Date: June 2025**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Consulting	\$450,000		
Total Expenses	450,000		
Revenues Over (Under) Expenses	(\$450,000)	\$0	\$0

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	MEMBER CUSTOMER RELATIONSHIP MANAGEMENT
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	CHRISTIAN CARTER, CHIEF MEMBER EXPERIENCE OFFICER AND SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	FEBRUARY 1, 2025
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL EXPENSE REQUESTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$453,651
(2026):	\$239,571
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary

The NAIC is a dedicated member-driven organization, fostering collaboration, innovation, and member connectivity among insurance regulators. As a key pillar of the regulatory framework in the U.S., the NAIC ensures that its members have the resources, tools, and support needed to protect policyholders and maintain a fair, competitive insurance market. This approach amplifies the collective expertise of its members, creating stronger regulatory practices while adapting to the dynamic landscape of the insurance industry.

Connecting NAIC members and regulators to their staff and to each other, as well as to NAIC resources, content, and expertise, is paramount to protecting consumers and preserving the state-based regulatory system. This system will continue to strengthen as individual and collective engagement opportunities expand among members and their departments. By fostering deeper connections, the NAIC achieves a higher level of regulator support while advancing three key goals: a more engaged and collaborative membership, an intuitive approach to accessing resources, and heightened awareness of regulatory expertise.

Recognizing the importance of member connectivity, the NAIC integrated this focus into its strategic plan, *State Connected*, to ensure cohesive collaboration and engagement across all member departments. This plan outlines specific objectives designed to streamline communications, facilitate member interactions, and improve access to and collaboration around NAIC content. Additional

information on this strategic focus (strategic focus 1) and its goals is available on the NAIC's webpage at <https://content.naic.org/about/state-connected>.

Accordingly, NAIC's Member Services and Engagement, Information Technology Group (ITG), and Communications Divisions seek the necessary resources to deliver on these objectives by securing funding for a customer relationship management (CRM) system.

A CRM system is a scalable software package offering digital communication solutions that would enable NAIC staff to enhance customer engagement, service quality, streamline processes, and improve overall operational efficiency. Currently, the NAIC does not employ a centralized technology platform to maintain organized member and stakeholder information for reporting and service purposes. There is no comprehensive system to track activities, engagement, committee history, service touchpoints, insurance department attributes, key contacts, and other critical information. NAIC members have requested more streamlined and unified NAIC communications in areas such as committees, meetings, events, newsletters, research publications, and role-based communications.

II. Key Deliverables

Currently, member and stakeholder information is stored across the organization in manually maintained spreadsheets, documents, and various siloed databases. This fiscal will provide the funding to implement an enterprise-wide CRM system with the goal of eliminating manual tasks, reducing errors, enhancing operational efficiency, and achieving the following objectives:

- Employ a scalable CRM software solution to function as the source of truth for all member and regulator records, including demographics, member preferences, committee membership, etc. The CRM would also store records such as third-party companies, stakeholders, industry partners, and more.
- Utilize a dynamic reporting tool to run real-time, filter-enabled reports by person and by organization.
- Evaluate and improve services using comprehensive insights derived from CRM-generated and mined data.
- Track and improve customer journeys, service programs, and product offerings.
- Automate and streamline various business processes, such as record updates, using application programming interface (API) technology.
- Streamline, unify, and track digital communications.
- Migrate data currently stored in several disparate systems into a centralized, organized hub.
- Gain a measurable understanding of every NAIC member and their department's needs by centralizing their data and interactions.
- Improve NAIC collaboration and teamwork through the sharing of member and customer information, historical communication data, and task assignments.

III. Initiative Benefits

By implementing a CRM, the NAIC, along with its members and customers, will benefit in the following areas:

- Customer Service: Manage member and customer interactions more effectively by providing quick access to customer information, leading to improved customer service and satisfaction.
- Data Management: Organize and store data in a secure environment, allowing teams across the NAIC to access information that improves collaboration and coordination.
- Continuous Improvement: Improve services and support across all divisions through the use of engagement and performance metrics.

- Analytics: Provide detailed analytics and reporting, allowing the NAIC to make data-driven decisions that benefit its members and stakeholders.
- Efficiency and Accuracy: Automate routine tasks within a centralized database to eliminate duplicative, fragmented data and significantly reduce the risk of manual errors.
- Enhanced Communication: Make email communications more consistent, strategic, and consumable for members and stakeholders.

IV. Financial and Organizational Impact

This fiscal is requesting a budget of \$453,651 in 2025 and \$239,751 in 2026 for new software, consulting resources for implementation and integrations, and one new staff member to support development and provide ongoing CRM support (see **Attachment I**).

The financial impact of this project includes software (\$92,544), consulting (\$254,400), and staff-related expenses (\$106,707).

For 2026 and beyond, ongoing annual software expenses will be approximately \$125,000, as user licenses will increase and records will expand beyond the initial 2025 implementation. However, the staff training expense is only anticipated for the first year.

V. Risk Management Plan

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

- Due Diligence: NAIC teams will clearly define and document business requirements to mitigate the risk of unintentionally overlooking mission-critical components. Subject matter experts will be involved throughout the process to ensure a successful implementation. New technology selections will involve a meticulous and thorough assessment of software functionality, data security, scalability, cost analysis, integration requirements, proof of concept exercises, etc.
- Sound Decision-Making: An oversight team will lead cooperative efforts to ensure all relevant variables (department impacts, timeline, service contingency plans, etc.) are addressed to make key decisions throughout each stage.
- Staff Resources and Transitions: The appropriate staff and skillsets will be in place to develop and deliver communication and customer service strategies, improve workflows, operate, and maximize the value of the CRM. However, there is a risk that qualified candidates may be hard to find and work could be delayed until the position has 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

The NAIC security team will be involved in selecting a CRM solution, including completing a security evaluation that reviews the security components implemented by the finalists before a final decision is made. This process ensures that all components meet the necessary security standards.

The new staff member will need to abide by NAIC employment policies and procedures. By nature of the work, the position may need to utilize confidential information to perform their duties. As such, the position will be subject to the NAIC's confidentiality requirements.

2025 Budget

**Member Customer Relationship Management
Project Cost Analysis**

**Anticipated Start Date: February 2025
Anticipated Completion Date: Ongoing**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Salary and Benefits	\$100,707	\$114,571	\$118,995
Training	6,000		
Software	92,544	125,000	125,000
Consulting	254,400		
Total Expenses	453,651	239,571	243,995
Revenues Over (Under) Expenses	<u>(\$453,651)</u>	<u>(\$239,571)</u>	<u>(\$243,995)</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 1, 2024
NAME OF INITIATIVE:	OPERATIONAL STAFFING
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JEFF JOHNSTON, CHIEF REGULATORY AFFAIRS OFFICER, SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER, AND JIM WOODY, CHIEF FINANCIAL OFFICER
REQUESTED INITIATIVE START DATE:	FEBRUARY 1, 2025
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2025):	\$0
(2026):	\$0
TOTAL EXPENSE REQUESTED (2025):	\$1,057,016
(2026):	\$1,338,247
TOTAL CAPITAL REQUESTED (2025):	\$0
(2026):	\$0

I. Executive Summary

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

- Agile Program Manager to offer dedicated oversight and foster a more collaborative environment by enhancing alignment between IT capabilities and business objectives.
- Finance Manager to meet the increased demand in the Finance Department due to growth in and complexity of financial transactions of the NAIC and its affiliates (NIPR and the Insurance Compact).
- Investment Analysis Office (IAO) Product Manager to bridge the gap between business requirements and technical execution, ensuring alignment, improving the Agile process, and enhancing user satisfaction by focusing on the business aspects and broader market of VISION-related products.
- Reinsurance Analyst to assist regulators in maintaining and updating the expanding list of certified reinsurers, reciprocal reinsurers, and alien insurers listing on the NAIC Quarterly Listing of Alien Insurers.

- Senior Data Analyst to help meet the increasing demand to review Actuarial Guideline 53 (AG-53) (Complex Assets for life insurers) data sets filed with the NAIC.
- State Based System (SBS) Scrum Manager to address capacity constraints, streamline existing workflows, enhance team cohesion, and ensure higher-quality deliverables.
- SBS Systems Engineer to address the capacity deficit in the SBS Development Team, which will enable innovation and improve overall system development productivity.
- Senior Property and Casualty Manager to assist with numerous initiatives of the Property and Casualty Insurance (C) Committee which supports the property and casualty market intelligence data call (PCMI Data Call) and other NAIC strategic priorities including support for the Climate and Resiliency (EX) Task Force.

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.

Agile Program Manager

In recent years, the complexity and scale of NAIC's strategic initiatives have increased rapidly, particularly through NAIC's *State Ahead* and *State Connected* initiatives. To ensure strategic alignment between business and technology initiatives, a dedicated agile program manager is needed. This role will provide dedicated oversight and foster a collaborative environment, significantly contributing to the successful implementation of business process improvements, system enhancements, and operational reporting. By enhancing business engagement, the Enterprise Project Management Office (EPMO) agile program manager will bridge the gap between IT and business units, ensuring project work aligns closely with organizational goals as well as facilitate improved communication and collaboration among stakeholders. Acting as a conduit between business needs and IT capabilities, this role will drive a more cohesive approach to program delivery.

An agile program manager will bring a structured approach to managing NAIC initiatives, ensuring they are delivered on time, within scope, and with maximum value. By adhering to necessary processes and best practices, the agile program manager will ensure continuous improvements and optimize resource utilization. Effective management of multiple projects simultaneously requires extensive coordination, and this role will oversee the optimization of resource allocation, identify potential bottlenecks, and ensure efficient use of resources across various initiatives. Engaging with executive and business sponsors, the agile program manager will prioritize projects and deliver them efficiently, enhancing project outcomes and making better use of organizational investments.

Additionally, the agile program manager will enhance risk management by identifying and mitigating risks early in the project lifecycle, minimizing potential disruptions, and ensuring smoother project execution. With an increasing emphasis on aligning IT projects with broader business goals, this role will ensure that projects contribute directly to NAIC strategic objectives. By tracking progress against strategic goals, the agile program manager will ensure program outcomes align with the organization's vision and priorities. Fostering a culture of continuous improvement and agility, this role will implement Agile best practices, driving adaptability and responsiveness to changing business needs and market conditions. Overall, this position will drive

better engagement, improve satisfaction, and contribute to effectively achieving the NAIC's strategic objectives.

Finance Manager

For more than 15 years, NAIC's Finance Department has operated with a team of 12 staff members. In this time, the financial support for the NAIC, along with its affiliates NIPR and the Insurance Compact, have significantly increased in both volume and complexity. NIPR and the Insurance Compact have experienced revenue growths of 270% and 649%, respectively, since 2009. As with all companies, there has been substantial growth in the number of financial transactions that must be processed. Also, a substantial increase in capital projects for both NAIC and NIPR have greatly expanded the demand for financial expertise and oversight.

The NAIC is requesting an accounting professional to bolster the financial operations of the organization and its affiliates. The necessity for this additional position stems from several factors, including the ongoing growth and complexity of the NAIC, NIPR, and the Insurance Compact, as well as capital projects such as SERFF Modernization and UCAA, among many others. The implementation of a new enterprise resource planning (ERP) software has also increased the number and intricacy of maintenance processes, necessitating additional support.

Further, the volume of financial transactions has surged across all areas. This includes payments to vendors, receipt of customer payments, member reimbursements under Zone and Grant funding, regulator and staff expense reports, and the growing size and complexity of national and major meetings. The budgets for all three entities have also expanded significantly. Some of the increase in volume will be addressed with the new enterprise resource platform (ERP) but management and oversight of these areas of excessive growth cannot. The Finance Department is now facing an unprecedented workload that necessitates the addition of staff to ensure continued efficient and effective financial management.

IAO Product Manager

The complexity of some of the VISION related products supported by the IAO, which includes the Securities Valuation Office (SVO) and Structured Securities Group (SSG), necessitates a dedicated focus. A product manager for the IAO is needed to assist in creating solutions that are desirable, viable, feasible, sustainable, and effectively meet customer needs. The product manager will concentrate on the business aspects and the broader market, ensuring the right features are built at the right time. Acting as a "translator", this role will bridge the gap between business requirements and technical execution, ensuring alignment and improving the process.

The lack of dedicated focus in this area has led to unmet business needs and rework due to misunderstood requirements. By appointing a dedicated product manager, the partnership between the business and technical areas will be strengthened, resulting in enhanced user satisfaction. The product manager will increase awareness and focus on the activities and responsibilities of the IAO, leading to the development of additional product features in VISION, AVS+, and Structured Securities. This role is crucial for prioritizing IAO initiatives, interdepartmental communications documenting the product roadmap, and ensuring key milestones are met. This role will allow users and IAO staff to ensure the VISION application better meets their needs.

Reinsurance Analyst

In 2011, the NAIC adopted revisions to its Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) that created a certification process for reinsurers that are unlicensed in the U.S. but still met certain standards set out in the revisions. In meeting these

standards, certain reinsurers were allowed to collectively reduce collateral requirements as a certified reinsurer.

In 2019, further revisions to these models enhanced and updated the regulatory framework in several ways, including the creation of a new certification process specifically for reciprocal reinsurers, which are reinsurers from jurisdictions that have a regulatory system considered equivalent to those in the U.S. If a reinsurer was deemed to have equivalent reinsurance regulator standards, it could qualify for reduced collateral requirements under the new standards.

Over the last five years, the number of certified reinsurers has grown from 33 to 41, while the number of reciprocal reinsurers is 81. The NAIC has completed all the analysis on these insurers with the same number of staff that existed prior to the adoption of these acts, while the workload required to perform the analysis has substantially increased. In addition, this area also maintains the *NAIC Quarterly Listing of Alien Insurers*, which too has substantially increased from 158 to 171 over the past five years.

Previously a redistribution of work among various existing analysts has addressed the increased workload however the volume and complexity of these responsibilities have grown to the point where additional NAIC resources are needed to continue to complete these reviews on a timely basis.

Senior Data Analyst

In 2022, the Life Insurance and Annuities (A) Committee adopted AG-53, which was intended to provide regulators more information on the assumptions of certain assets within the annual asset adequacy analysis testing. This guideline provides specific instructions for calculating the reserve liabilities of certain life insurance products and is part of a broader framework of actuarial guidelines aimed at ensuring that insurance companies maintain adequate reserves to meet their future policyholder obligations. This was deemed necessary due to the increasing use of complex investments in insurer's portfolios. In 2024, there were 270 AG-53 filings, up from 235 in 2023 and the number of filings is not expected to decrease in the future.

In 2023, the NAIC accomplished the review of these filings by distributing the work among four different employees and redistributing other work. However, high volumes of filings resulted in some employees working upwards of 80 hours per week for an extended number of weeks to meet the turnaround requirements of the review. This request is being made to continue to support the members' efforts in reviewing AG-53 and continue to meet delivery deadlines.

A senior data analyst position added to the actuarial team will provide a key resource to meet the needs of regulators, who are increasingly relying on the NAIC to perform the type of data analysis that would be done by this position. Without additional resources, NAIC's ability to provide these services will be constrained.

SBS Scrum Master

To support the ongoing expansion and increasing complexity of the SBS system, it is essential to introduce a dedicated scrum master to the team. A scrum master is a key role in a development environment, providing support to the development team, assisting product owners, and supporting the organization. Currently, SBS relies on two individuals to fulfill the scrum master role for two SBS scrum teams, causing them to divide their time between scrum master duties and their primary roles in production support and quality assurance. While this temporary arrangement has allowed SBS to achieve some positive outcomes for regulators and industry

users, it is less than optimal for performance. The dual responsibilities impact the quality of outputs and slows down response times.

Adding a scrum master would enhance overall project efficiency and team cohesion. With a full-time scrum master dedicated to facilitating processes and removing impediments, teams can operate more smoothly and effectively. This focused leadership would not only streamline workflows but also foster a culture of continuous improvement and accountability. By addressing the current resource strain and optimizing project management practices, SBS can ensure better alignment with NAIC goals and higher-quality deliverables. Investing in a dedicated scrum master is a strategic move that will yield long-term benefits for SBS and regulators.

SBS Systems Engineer

The ongoing SBS system expansion, increases in the scope, and complexity of related projects has caused the resultant workload to far exceed the team's current capacity, has impacted the quality and timeliness of deliverables, and placed stress on system deliverables.

Addressing the capacity deficit in the SBS development team is essential to meet the stringent requirements set by regulators and industry users. Their commitment to compliance and high standards is non-negotiable, and without adequate staffing SBS risks falling short of these expectations. An additional developer will provide the necessary bandwidth to ensure all regulatory requirements are met promptly and accurately, safeguarding operational integrity.

In addition, bringing another developer to the team will enhance innovation and boost overall productivity. With additional support, they will have the opportunity to explore new technologies and methodologies, improve systems and processes, and take a more proactive approach to development. This strategic investment will benefit current projects and better position SBS for future endeavors, ensuring greater efficiency, innovation, and long-term success.

Senior Property and Casualty Manager

The insurance regulators' agreement to participate in the substantial Property and Casualty Market Intelligence (PCMI) data call marks a significant advancement in the collection of crucial data related to homeowners insurance. This initiative is designed to enhance the understanding of homeowner insurance markets at both the state and ZIP code levels. By examining how coverages and deductibles have influenced affordability and availability challenges over time, the PCMI Data Call will equip insurance regulators with valuable insights needed to maintain market stability and transparency.

The PCMI data call is vital for regulators to systematically collect comprehensive data from property and casualty insurers. This process will allow regulators to have a detailed and aggregated view of market trends, facilitating the identification of emerging risks. These insights are essential for developing regulatory policies that protect consumers. While contract resources have been approved for the initial 2024 data call, establishing long-term and permanent resources is crucial for supporting this significant initiative on an ongoing basis.

The NAIC is requesting the addition of a senior property and casualty (P&C) insurance manager. This role is critical for supporting strategic initiatives such as the PCMI data call and other NAIC priorities that require extensive policy support. The new senior P&C manager will lead efforts related to the PCMI data call, provide value by refining data templates annually, and assist in the collection, quality assurance, and analysis of the data. Additionally, this role will involve monitoring and advising on P&C and climate-specific trends, assisting regulators with disaster-related data calls, supporting regulatory discussions, and providing P&C expertise to regulators.

and internal staff. The position will also manage P&C specialists and support market intelligence tools, ensuring that regulatory goals are met effectively.

III. Key Deliverables

The new full-time positions are expected to be hired and brought on board in early 2025.

IV. Financial and Organizational Impact

The financial impact, consisting primarily of salaries and benefits and equipment included in the base budget, will be \$1,057,106 in 2025 and \$1,338,247 in 2026 (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 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.

2025 Budget

**Operational Staffing
Project Cost Analysis**

**Anticipated Start Date: February 2025
Anticipated Completion Date: Ongoing**

Description	2025 Total	2026 Total	2027 Total
Expenses:			
Salary and Benefits	\$1,030,233	\$1,338,247	\$1,398,476
Staff Travel	2,502		
Non-Capital Equipment	24,281		
Total Expenses	1,057,016	1,338,247	1,398,476
Revenues Over (Under) Expenses	<u>(\$1,057,016)</u>	<u>(\$1,338,247)</u>	<u>(\$1,398,476)</u>

NAIIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2025 BUDGET UNRESTRICTED NET ASSETS (UNA)

	Total UNA	Regulatory Modernization Fund (1)	Available UNA
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 Revenues Over/(Under) Expenses	23,358,889		
Defined Benefit Plan Adjustment (FAS 158) (2)	1,607,802		
2023 Ending Balance	193,888,978	\$2,498,819	\$191,390,159
2024 Projected Revenues Over/(Under) Expenses	11,261,266		
2024 Project Ending Balance	205,150,244	\$3,077,254	\$202,072,990
2025 Revenues Over/(Under) Expenses	(2,183,131)		
2025 Ending Balance Before Fiscal Impact Statements	202,967,113	\$3,044,507	\$199,922,606
2025 Fiscal Impact Statements	(4,469,527)		
2025 Ending Balance After Fiscal Impact Statements	<u>\$198,497,586</u>	\$2,977,464	\$195,520,122

UNRESTRICTED NET ASSETS

(1) The Regulatory Modernization and Initiatives Fund manages spending beyond the budget by establishing spending guidelines for new initiatives and proposals submitted subsequent to the annual budget presentation. The fund balance is 1.5% of projected consolidated net assets for that year.

(2) Financial accounting standards require 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. In 2024, the Executive (EX) Committee voted to terminate the Defined Benefit Plan and the NAIC is in the process of a pension risk transfer, which is expected to be completed by the end of 2024.

The defined benefit plan adjustment at December 31, 2020, decreased the plan 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 \$670,000 contribution decreased the plan obligation at the December 31, 2021, measurement date resulting in a \$2.6 million increase in the plan asset and an increase in net assets of \$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 which decreased the plan asset \$499,074 and increased net assets \$192,874.

Favorable market performance and updated plan assumptions increased the funded status of the plan as of December 31, 2023, increasing the plan asset \$2.4 million and net assets \$1.6 million.

Operating Reserve Policy

On August 10, 2022, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee adopted an operating reserve policy, which established a new methodology based on a report from the independent consulting firm hired to review NAIC's operating reserves. 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 \$170.4 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.