



National Association of Insurance Commissioners

A large, stylized globe is the background of the entire page. The globe is rendered in a dark blue color with a grid of small white dots. The continents are visible, and the globe is shown from a perspective that makes it appear to be a sphere. There are three white starburst graphics on the right side of the globe, near the North American continent.

PROPOSED
2021
NAICBUDGET

NAIC Executive (EX) Committee and
Internal Administration (EX1) Subcommittee
October 2020

PROPOSED 2021 NAIC BUDGET

TABLE OF CONTENTS

Executive Summary	1
Budget Overview	6
Revenue and Expense Summaries	23
Revenue Detail	25
Expense Detail	39
Investment Income Detail	63
Fiscal Impact Statement Summary	64
Fiscal Impact 1 — Artificial Intelligence and Machine Learning for Financial Analysis	65
Fiscal Impact 2 — Enterprise Data Asset Management	68
Fiscal Impact 3 — MCAS/FDR Separation	72
Fiscal Impact 4 — SERFF Plan Management Enhancements	76
Unrestricted Net Assets	79

NOTE: Audited financial statements are included in the NAIC Annual Report located at http://www.naic.org/index_about.htm

Executive Summary

NAIC 2021 Budget



National Association of Insurance Commissioners

About the NAIC

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight activities. NAIC staff supports these efforts and represents the collective domestic and international views of state 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 state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents/brokers in their respective jurisdictions.

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

The year 2020 has seen a number of surprises, not least of which was a global pandemic. Natural disasters ranged from devastating hurricanes to historic wildfires. Civil unrest highlighted unresolved issues of importance to society. These issues and more have had an impact to the insurance industry, and through it all, the NAIC has sought to provide leadership, resources, and a path forward.

Naturally, the year 2021 will also bring surprises. Yet as the world moves toward an unknown future, having a plan in place to address key issues and provide guidance and direction is crucial. Over the past three years, the NAIC has utilized its strategic plan, *State Ahead*, as a compass. The plan articulated a comprehensive vision for the future of state insurance regulation and outlined how the NAIC could help the membership stay ahead of the curve in a rapidly evolving marketplace. Although the original intent was to expand the plan in 2021 as *State Ahead 2.0*, the vast number of surprises this year required NAIC leadership to carry several initiatives from the plan into 2021, so that attention could be focused on the response to the pandemic, natural disasters, and social issues that came to the forefront in 2020.

As a result, the 2021 budget continues to incorporate funding for several key initiatives from *State Ahead*, particularly completing the migration of applications to the Cloud, the build out of the centralized data warehouse and its governance, and the development of business intelligence dashboards for market regulatory oversight. The budget demonstrates a firm commitment to support technology advancements and the continuing modernization of insurance regulation in areas such as innovation, cybersecurity, and international standard-setting.

The budget also continues the NAIC's commitment to support the variety of programs, products, and services in the financial solvency and market regulatory arenas. The NAIC offers a wide range of publications, data, and information systems; accreditation reviews; and many other

services to assist state insurance regulators in achieving their fundamental insurance regulatory goals in a timely and cost-effective manner.

Support of the Membership

The mission of the NAIC is to assist the state insurance regulators in serving the public interest and achieving its goals of protecting the public interest; promoting a competitive marketplace; facilitating the fair and equitable treatment of insurance customers; ensuring the reliability, solvency, and financial stability of insurers; and supporting and improving state insurance regulation. Leveraging NAIC technology solutions, regulatory tools, and staff resources allow member states to achieve these goals at a significant cost savings. Without these options, many systems would be cost-prohibitive for the states to implement on their own. Without membership in the NAIC, the amount of state funding required to provide or access similar types of services and data the NAIC provides — often at no extra charge — would far exceed what a state pays in member dues to the NAIC.

A Focus on Consumers

The NAIC provides a multi-channel approach to reach and assist consumers in making informed decisions on insurance matters. These multi-pronged marketing communications campaigns include items like consumer insights, a consumer section on naic.org, mobile apps, and targeted social campaigns. In 2021, naic.org will be updated to enable consumers and regulators to better navigate NAIC resources.

Valuable Products and Services

The NAIC seeks to support its mission through a wide variety of products and services offered to both the insurance industry and state regulators. NAIC web-based systems automate, standardize, and streamline regulatory processes by transmitting data and facilitating regulatory transactions between insurers, consumers, and state insurance regulators.

By the Numbers

NAIC products and services make life easier.

- ▶ **Life Policy Locator** – 175,006 requests received from inception in Nov. 2016 through year-end 2019, with 60,247 located life insurance policies for a total claims amount of more than \$821 million
- ▶ **System for Electronic Rates & Forms Filing (SERFF)** – 577,165 transactions processed in 2019
- ▶ **Online Premium Tax for Insurance (OPTins)** – 139,313 transactions processed in 2019
- ▶ **State Based Systems (SBS)** – back-office services licensed to 32 jurisdictions in 2020
- ▶ **Professional Designation Program** – 1,310 designations awarded since the program's inception in October 2006 through year-end 2019
- ▶ **Center for Insurance Policy and Research (CIPR) Key Research Issues** – 180 briefs currently available online including NAIC key initiatives and topics ranging from cybersecurity and innovation to natural catastrophe risk and resiliency

The NAIC is committed to maintaining and enhancing these systems to provide high-quality service to all stakeholders. The 2021 budget includes four technology-based fiscals, which represent initiatives to incorporate cutting-edge technology to improve decision-making and analysis, build out the data infrastructure, eliminate redundant processes, and improve data quality.

Building the Budget

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

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

Expected Results for 2020

Based on actual operating results (before adding investment income) through June 30, 2020, the NAIC projects a net negative operating margin of \$3.6 million compared to a budgeted net negative operating margin of \$10.8 million, an improvement of nearly \$7.2 million. Investment income is projected to be \$3.0 million, resulting in a net asset decrease of nearly \$591,000. As a result of the COVID-19 pandemic, 2020 was an unusual year resulting in the cancellation of most in-person meetings causing travel, meetings, and Grant/Zone to be significantly lower than budget.

2020: Year Three of *State Ahead*

State Ahead includes 91 key initiatives. By year end, 60 projects will be completed, or 66%.

2020: Transforming

By the end of 2020, the NAIC will be positioned to provide its members with new analytics, technology, and tools to more effectively regulate their markets.

Several initiatives outlined in the *State Ahead* blueprint resulted in fiscal impact statements for 2020. These fiscals were made available for public comment in advance of membership consideration, approval, and incorporation into the 2020 budget.

Additional information regarding 2020 projected variances is included throughout the detailed footnotes of the budget.

2021: *State Ahead* remains a focus

Several key projects will carry into 2021 as the transforming phase continues.

Cloud Migrations, Data Asset Management, Macprudential Surveillance Tools, Enhanced Financial Reporting & Risk Assessment, among others.

2021 Budget

The 2021 budget demonstrates NAIC's continued strong focus on prudent financial management, which is critically important in these unprecedented times. The 2021 budget also assumes in-person meetings will be held again starting in the first quarter.

The 2021 NAIC operating budget (before adding investment income) reflects revenues of \$117.2 million

and expenses of \$127.2 million, which represent a 2.4% and a 1.5% increase, respectively, from the 2020 budget, resulting in \$10.0 million in projected expenses over revenues. Viewed in relation to the 2020 projected totals which were significantly impacted by the pandemic, the 2021 budget represents operating revenue increase of 4.1% and operating expense increase of 9.4%. Additional information about the 2021 budget is included throughout the detailed footnotes of the budget.

A fiscal impact statement (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 requires 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 of the initiative; and an assessment of the risks. The total financial impact of the four fiscals included in the 2021 budget is \$2.1 million in expenses with no associated revenues. Additional information about each initiative is included in the various fiscal sections of the budget.

The 2021 budget includes \$1.8 million in investment income from the NAIC's Long-Term Investment Portfolio. Investment income is composed of interest and dividends earned reduced by investment management fees – investment gains and losses are not projected nor included in the budget.

Combining budgeted results from operations with budgeted investment income, the 2021 budget has a reduction in net assets of \$8.2 million.

Preparing for the Unknown

The budget includes all known activities anticipated to occur in 2021. However, as 2020 has proven to be a year that deviated from the expected, situations will likely arise during 2021 that require additional funding. In such an event, a funding request is prepared and presented to the Executive (EX) Committee and Internal Administration (EX1) Subcommittee for consideration. Funding for any approved project comes from the Regulatory Modernization and Initiatives Fund, established in 2005 to manage requests that

2021 Fiscal Impact Statements

- ▶ **Artificial Intelligence and Machine Learning for Financial Analysis** – proposes to utilize an external consultant with expertise in AI and predictive analysis to assist NAIC staff in improving the accuracy of the NAIC Scoring System for life and accident & health insurers, which is a key financial analysis solvency tool used by regulators to identify and assess potential financial risks and to prioritize financial surveillance efforts.
 - 2021 expense of \$150K
- ▶ **Enterprise Data Asset Management** – continues to build-out the new Enterprise Data Platform in AWS and adds new tools and technologies to modernize the NAIC's data capabilities in areas such as data movement, data quality, data preparation, and data science. Advanced data users at state insurance departments will gain efficiencies in their data work and gain more powerful insights from their analyses, while less technical users will be empowered to perform some of their own data discovery and analysis.
 - 2021 expense of \$1.4M
- ▶ **MCAS/FDR Separation** – due to the growth of MCAS filings from the initial four lines of business in 2014 to nine lines of business in 2021, this project will address the growing complexity of the MCAS system relying on the FDR system. This project will allow the MCAS system to operate independently of the FDR system and reduce work across multiple NAIC departments when setting up annual data validations and MCAS scorecard ratios. Eliminating system dependencies and simplifying internal work processes will provide for more efficient use of NAIC resources to meet the needs of the NAIC Members.
 - 2021 expense of \$266K; 2022 expense of \$134K
- ▶ **SERFF Plan Management Enhancements** – these updates will streamline processes supporting data collection related to the Patient Protection and Affordable Care Act. The resulting process will require less NAIC staff support and improve data quality as well as simplify the process for insurance companies.
 - 2021 Expense of \$292K

arise following the adoption and implementation of an annual budget. The Fund is based on 1.5% of the NAIC's projected consolidated net assets as of December 31, 2021, or \$2.1 million with the inclusion of fiscals.

Ensuring Financial Stability

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

Operating Reserve	
2019 Audited	104.9%
2020 Projected	104.9%
2021 Proposed	100.6%

In July 2015, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved a report from an independent financial advisory firm which established the NAIC's liquid operating reserve target range of 83.4% to 108.2%. This range was the result of a comprehensive review of current and future identified risks and an evaluation of comparable organizations. This report recognized the increased level of uncertainty facing the NAIC and anticipated future investments which would be required to enhance the association's information technology and technical infrastructure, which is represented by many elements of the 2021 budget.

Contact Information

The NAIC appreciates the opportunity to present this 2021 budget and believes it provides a comprehensive review of the NAIC's business and financial operations for the current and upcoming fiscal year. A summary of the 2021 budget's key components is included in the budget overview.

Please feel free to contact Jim Woody, Chief Financial Officer, at (816) 783-8015, or Carol Thompson, Senior Controller, at (816) 783-8038, should you have any questions or need additional information.



2021 BUDGET OVERVIEW

2021 BUDGET OVERVIEW

CURRENT STATE

2020 has not been the year anyone expected with the advent of the COVID-19 pandemic, natural disasters and civil unrest impacting consumers, insurers, and regulators. However, the NAIC continued to serve its members and other constituents by quickly pivoting to a new environment by providing a virtual platform to conduct business as well as adjusting its priorities.

The NAIC also continued to implement the priorities outlined in the NAIC's three-year strategic plan *State Ahead* as well as adopt new regulatory priorities such as Climate and Resiliency, and Race and Insurance.

The key to being successful in 2020 was remaining focused on key objectives but doing so in a thoughtful and flexible manner.

Financial Performance in 2020 is above budget (dollars in millions)

	2019 Actual	2020 Budget	2020 Projection	Change 2020 Budget vs 2020 Projection
Operating Revenue	\$113.3	\$114.5	\$112.7	(\$1.8)
Operating Expense	117.4	125.3	116.3	(9.0)
Operating Revenues Over/(Under) Expenses	(4.1)	(10.8)	(3.6)	7.2
Investment Income	18.0	3.2	3.0	(0.2)
Net Revenues Over/(Under) Expenses	<u>\$13.9</u>	<u>(\$7.6)</u>	<u>(\$0.6)</u>	<u>\$7.0</u>

- Operating results are expected to be above budget by \$7.2M due to a \$1.8M (1.6%) under run in operating revenue offset by a \$9.0M (7.2%) under run in operating expense.
- Investment income is expected to be slightly below budget due to lower-than-budgeted interest and dividend income partially offset by unrealized/realized net investment gains.
- Overall, net assets at the end of 2020 are expected to decrease \$0.6M to \$148.8M, exceeding budget by \$7.0M.

2020 Operating Revenue (dollars in millions)

	Budget	Projection	Variance
Member Assessments	\$2.1	\$2.1	—
Database Fees	31.8	32.0	\$0.2
Publications and Insurance Data Products	16.9	17.0	0.1
Valuation Services	28.0	28.4	0.4
Transaction Filing Fees	12.7	13.0	0.3
National Meeting Registration Fees	2.9	1.0	(1.9)
Education and Training	0.4	0.4	—
Administrative Services/License Fees	19.6	18.7	(0.9)
Other	0.1	0.1	—
Total Revenue	\$114.5	\$112.7	(\$1.8)

With a few exceptions, most revenue categories are at or slightly above budget:

- National Meeting Registration Fees lower than budget due to cancellation of the Spring meeting and holding the Summer and Fall meetings virtually.
- Administrative Services/License Fees revenue is below budget due to lower-than-budgeted revenues generated by the NAIC’s affiliate National Insurance Producer Registry (NIPR).
- Most other revenue categories are slightly above budget due to the number of transactions processed.

2020 Expenses (dollars in millions)

	Budget	Projection	Variance
Salaries, Taxes, and Benefits	\$72.7	\$74.2	\$1.5
Professional Services	17.5	17.1	(0.4)
Computer Services	5.8	4.9	(0.9)
Travel	5.3	1.0	(4.3)
Occupancy and Rental	4.6	4.6	—
Computer Hardware and Software Maintenance	6.0	5.8	(0.2)
Depreciation and Amortization	4.1	4.1	—
National Meetings, NAIC Events, and Interim Meetings	4.1	0.9	(3.2)
Education and Training	0.2	0.1	(0.1)
Grant and Zone	1.7	0.6	(1.1)
Administrative and Operational	3.3	2.9	(0.4)
Total Expense	\$125.3	\$116.3	(\$9.0)

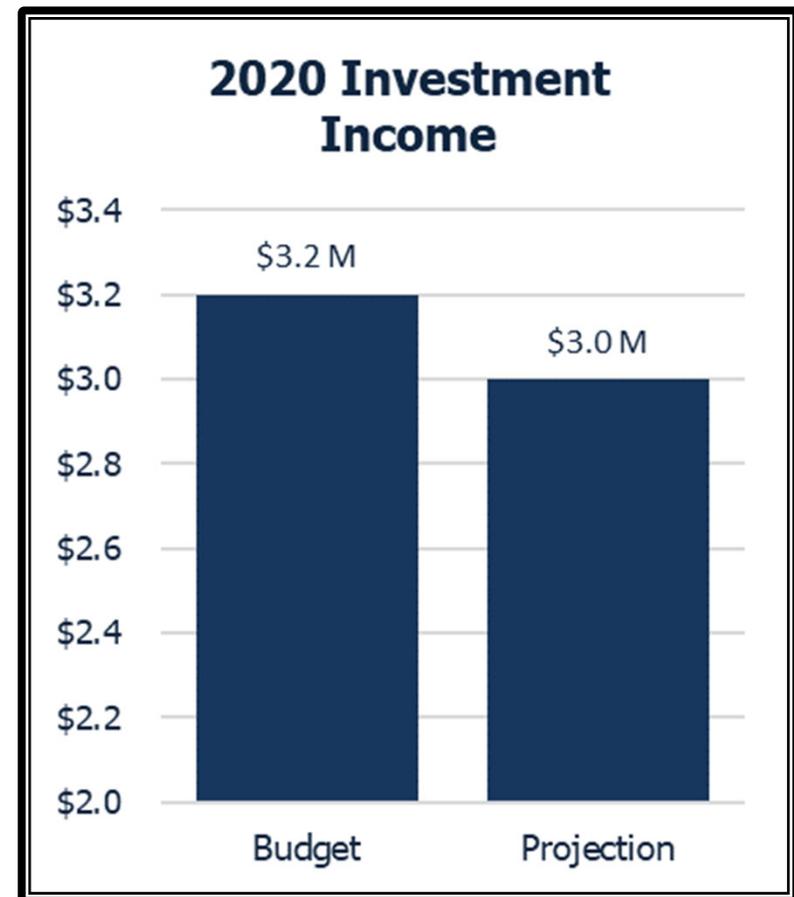
- Staffing (salaries, taxes, and benefits) – salaries are above budget due to restructure costs, lower-than-budgeted turnover costs, and vacation accrual/buyback expense.

Most other categories are below budget due to the impact of the pandemic on operations:

- Travel, Meetings, and Grant/Zone expenses are significantly under budget due to the cancellation of most in-person meetings, which directly impacted spending resulting in an under run of \$8.6 million.
- Other categories of expense were also impacted by the COVID-19 pandemic but generally not as significantly.

2020 Investment Income

The composition of the NAIC's investment portfolio is a diversified blend of fixed income, equities, and alternative investments. Through August, the portfolio experienced a significant amount of volatility as the pandemic rattled the world's financial markets. Due to the level of monetary aid and fiscal stimulus provided by governments globally, most financial markets have rebounded from their first quarter decline but remain stressed.



LOOKING TO 2021

Although COVID-19 is expected to still be a significant concern, the NAIC expects to return to a more “normal environment” in 2021 with a return to in-person meetings, although the meetings will also likely have a virtual component.

After hitting the “pause button” due to the pandemic, planning for the next phase of the NAIC’s three-year strategic plan will get underway in early 2021. The NAIC will also complete the remaining *State Ahead* initiatives as well as continue to focus on other current initiatives.

As we have all learned and given all the uncertainties ahead, it is important to remain flexible and focused on providing the timely and quality services our members have come to expect.



National Association of Insurance Commissioners

2021 BUDGET OVERVIEW

2021 Budget

(dollars in millions)

	2019 Actual	2020 Budget	2020 Projection	2021 Budget	2021 Budget Increase (Decrease) from 2020 Budget	2021 Budget Increase (Decrease) from 2020 Projection
Operating Revenue	\$113.3	\$114.5	\$112.7	\$117.2	\$2.7	\$4.5
Operating Expense	117.4	125.3	116.3	127.2	1.9	10.9
Operating Revenues Over/(Under) Expenses	(4.1)	(10.8)	(3.6)	(10.0)	0.8	(6.4)
Investment Income	18.0	3.2	3.0	1.8	(1.4)	(1.2)
Net Revenues Over/(Under) Expenses	\$13.9	(\$7.6)	(\$0.6)	(\$8.2)	(\$0.6)	(\$7.6)

- Operating revenues increase by \$4.5M compared to 2020 projection as business operations are expected to return to a more normal environment.
- Operating expenses increase \$10.9M over 2020 projection but only \$1.9M higher than the 2020 budget. In addition to spending returning to a more normal level, the 2021 budget also includes four fiscals.
- Investment income is expected to decline in 2021 due to lower interest and dividend income as interest rates remain low and many companies have reduced dividends.
- After the inclusion of investment income, the NAIC's Net Assets are budgeted to decline \$8.2M.



National Association of Insurance Commissioners

2021 BUDGET OVERVIEW

2021 Operating Revenue

(dollars in millions)

	2019 Actual	2020 Budget	2020 Projection	2021 Budget	2021 Budget Increase (Decrease) from 2020 Budget	2021 Budget Increase (Decrease) from 2020 Projection
Member Assessments	\$2.1	\$2.1	\$2.1	\$2.1	—	—
Database Fees	31.0	31.8	32.0	32.4	\$0.6	\$0.4
Publications and Insurance Data Products	16.6	16.9	17.0	17.0	0.2	—
Valuation Services	29.3	28.0	28.4	28.8	0.8	0.4
Transaction Filing Fees	11.5	12.7	13.0	14.3	1.6	1.3
National Meeting Registration Fees	2.9	2.9	1.0	2.8	(0.1)	1.8
Education and Training	0.3	0.4	0.4	0.4	—	—
Administrative Services/License Fees	19.5	19.6	18.7	19.3	(0.3)	0.6
Other	0.1	0.1	0.1	0.1	—	—
TOTAL OPERATING REVENUES	\$113.3	\$114.5	\$112.7	\$117.2	\$2.7	\$4.5

- Operating revenues increase \$4.5M compared to 2020 projection:
 - Database Fees caps increase 2.2%, resulting in an increase of \$0.4M based a 0.5% premium growth rate.
 - Valuation Services increase \$0.4M primarily due to a \$5 increase per modeled CUSIP and select SVO price adjustments.
 - Transaction Filing Fees increase \$1.3M to reflect transaction growth in this category as well as a new price structure for the SERFF data hosting service, a 25-cent increase in SERFF transaction fees, and the first OPT^{ins} price increase since the product launched in 2008.
 - National Meeting Registration revenues increase by \$1.8M due to the expected return to in-person meetings in 2021.
 - Administrative Services and License Fees increase due to anticipated growth in NIPR revenues.

Actual 2019 – 2021 Budget Revenue Composition (dollars in millions)

	2019 Actual	2019 Composite Mix	2020 Budget	2020 Budget Composite Mix	2020 Projection	2020 Projection Composite Mix	2021 Budget	2021 Composite Mix
Member Assessments	\$2.1	1.9%	\$2.1	1.8%	\$2.1	1.9%	\$2.1	1.8%
Database Fees	31.0	27.4%	31.8	27.8%	32.0	28.4%	32.4	27.7%
Publications and Insurance Data Products	16.6	14.7%	16.9	14.8%	17.0	15.1%	17.0	14.5%
Valuation Services	29.3	25.9%	28.0	24.5%	28.4	25.2%	28.8	24.6%
Transaction Filing Fees	11.5	10.2%	12.7	11.1%	13.0	11.5%	14.3	12.2%
National Meeting Registration Fees	2.9	2.6%	2.9	2.5%	1.0	0.9%	2.8	2.4%
Education and Training	0.3	0.3%	0.4	0.4%	0.4	0.4%	0.4	0.3%
Administrative Services/License Fees	19.5	17.2%	19.6	17.1%	18.7	16.6%	19.3	16.5%
Other	0.1	0.1%	0.1	0.1%	0.1	0.1%	0.1	0.1%
TOTAL OPERATING REVENUES	\$113.3	100.0%	\$114.5	100.0%	\$112.7	100.0%	\$117.2	100.0%

- The budget assumes operations in 2021 will be less impacted by the pandemic than in 2020.
- No major shifts in revenue composition:
 - Database Fees remains the largest category at 27.7% of revenues.
 - Valuation Services continues as the 2nd largest category.
 - Administrative Services and License Fees have declined as a percentage of budget due to impact from the pandemic.



National Association of Insurance Commissioners

2021 BUDGET OVERVIEW

2021 Operating Expense

(dollars in millions)

	2019 Actual	2020 Budget	2020 Projection	2021 Budget	2021 Budget Increase (Decrease) from 2020 Budget	2021 Budget Increase (Decrease) from 2020 Projection
Salaries, Taxes, and Benefits	\$69.3	\$72.7	\$74.2	\$76.9	\$4.2	\$2.7
Professional Services	15.5	17.5	17.1	15.1	(2.4)	(2.0)
Computer Services	4.7	5.8	4.9	5.4	(0.4)	0.5
Travel	5.0	5.3	1.0	4.9	(0.4)	3.9
Occupancy and Rental	4.5	4.6	4.6	4.7	0.1	0.1
Computer Hardware & Software Maintenance	5.3	6.0	5.8	6.4	0.4	0.6
Depreciation and Amortization	4.0	4.1	4.1	4.2	0.1	0.1
National Meetings, NAIC Events, and Interim Meetings	3.7	4.1	0.9	3.8	(0.4)	2.9
Education and Training	0.1	0.2	0.1	0.3	0.1	0.2
Grant and Zone	1.5	1.7	0.6	2.4	0.7	1.8
Administrative and Operational	3.8	3.3	3.0	3.1	(0.1)	0.1
TOTAL OPERATING EXPENSES	\$117.4	\$125.3	\$116.3	\$127.2	\$1.9	\$10.9

- Operating expenses increase \$10.9M over 2020 projections:
 - Salaries and Benefit expense increase \$2.7M or 3.6%.
 - Travel increases \$3.9M and National meetings, NAIC Event and Interim Meetings increases \$2.9M due to expected return to in-person meetings in 2021.
 - Grant and Zone expense increases \$1.8M due to a higher expected level of travel.
 - Professional Services declines by \$2.0M due to the completion of the majority of Cloud migrations Z and completion of the transition to the SBS platform partially offset by the addition of four fiscals in 2021.



National Association of Insurance Commissioners

2021 BUDGET OVERVIEW

Actual 2019 – 2021 Budget Expense Composition (dollars in millions)

	2019 Actual	2019 Composite Mix	2020 Budget	2020 Budget Composite Mix	2020 Projection	2020 Projection Composite Mix	2021 Budget	2021 Composite Mix
Salaries, Taxes, and Benefits	\$69.3	59.0%	\$72.7	58.0%	\$74.2	63.8%	\$76.9	60.5%
Professional Services	15.5	13.2%	17.5	14.0%	17.1	14.7%	15.1	11.9%
Computer Services	4.7	4.0%	5.8	4.6%	4.9	4.2%	5.4	4.3%
Travel	5.0	4.3%	5.3	4.2%	1.0	0.9%	4.9	3.9%
Occupancy and Rental	4.5	3.8%	4.6	3.7%	4.6	4.0%	4.7	3.7%
Computer Hardware & Software Maintenance	5.3	4.5%	6.0	4.8%	5.8	5.0%	6.4	5.0%
Depreciation and Amortization	4.0	3.4%	4.1	3.3%	4.1	3.5%	4.2	3.3%
National Meetings, NAIC Events, and Interim Meeting	3.7	3.2%	4.1	3.3%	0.9	0.8%	3.8	3.0%
Education and Training	0.1	0.1%	0.2	0.2%	0.1	0.1%	0.3	0.2%
Grant and Zone	1.5	1.3%	1.7	1.4%	0.6	0.5%	2.4	1.9%
Administrative and Operational	3.8	3.2%	3.3	2.6%	3.0	2.6%	3.1	2.4%
TOTAL OPERATING EXPENSES	\$117.4	100.0%	\$125.3	100.0%	\$116.3	100.0%	\$127.2	100.0%

- Staffing costs remain the largest category of total expense at 60% of proposed budget and reflects the professional and technical nature of most staff positions.
- Professional Services declines compared to prior years and reflects a reduction in spending as most applications have migrated to the Cloud during the past year and the transition to the SBS platform is complete.
- Grant and Zone spending in 2021 increases due to the carryover of unused funds from 2020.

2021 Fiscal Summary

- **Artificial Intelligence and Machine Learning for Financial Analysis** – proposes to utilize an external consultant with expertise in AI and predictive analysis to assist NAIC staff in improving the accuracy of the NAIC Scoring System for life and accident & health insurers, which is a key financial analysis solvency tool used by regulators to identify and assess potential financial risks and to prioritize financial surveillance efforts.
- **Enterprise Data Asset Management** – continues to build-out the new Enterprise Data Platform in AWS and adds new tools and technologies to modernize the NAIC’s data capabilities in areas such as data movement, data quality, data preparation, and data science. Advanced data users at state insurance departments will gain efficiencies in their data work and gain more powerful insights from their analyses, while less technical users will be empowered to perform some of their own data discovery and analysis.
- **MCAS/FDR Separation** – due to the growth of MCAS filings from the initial four lines of business in 2014 to nine lines of business in 2021, this project will address the growing complexity of the MCAS system relying on the FDR system. This project will allow the MCAS system to operate independently of the FDR system and reduce work across multiple NAIC departments when setting up annual data validations and MCAS scorecard ratios. Eliminating system dependencies and simplifying internal work processes will provide for more efficient use of NAIC resources to meet the needs of the NAIC Members.
- **SERFF Plan Management Enhancements** – these updates will streamline processes supporting data collection related to the Patient Protection and Affordable Care Act. The resulting process will require less NAIC staff support and improve data quality as well as simplify the process for insurance companies.

2021 Fiscal Impact Statements

(dollars in thousands)

Initiative	2021 Revenue	2021 Expense	Net Impact on 2021 Budget	2021 Capital
Artificial Intelligence and Machine Learning for Financial Analysis		\$150.0	(\$150.0)	
Enterprise Data Asset Management		1,400.0	(1,400.0)	
MCAS/FDR Separation		266.0	(266.0)	
SERFF Plan Management Enhancements		291.8	(291.8)	
Total Fiscal Impact Statements	\$0.0	2,107.8	(2,107.8)	\$0.0
2021 Budget Before Fiscals	117,225.1	125,073.4	(7,848.3)	1,495.3
2021 Budget After Fiscals and Before Investment Income	117,225.1	127,181.2	(9,956.1)	1,495.3
Investment Income	1,759.8		1,759.8	
2021 Budget After Fiscals and Investment Income	\$118,984.9	\$127,181.2	(\$8,196.3)	\$1,495.3

2021 Headcount

2021 Headcount by Department	
Division	Current Approved Headcount
CIPR	6.5
Communications	11.0
Executive (includes Finance)	26.5
Financial Regulatory Services	111.0
Government Relations	21.0
Human Resources and Talent Management	7.5
Information Technology Group	221.0
Legal	14.0
Member Services	25.0
Research & Actuarial Services	12.0
Regulatory Services	16.5
Technical Services	23.5
Total Headcount	495.5

- No headcount increase from 2020
- Approximately 50% of staff is in information technology and technical support
- Employees in three locations: Kansas City, MO (423.5), New York, NY (47) and Washington, D.C. (25)

Liquid Operating Reserve Ratio (including fiscals):

Target liquid operating reserve ratio range is between 83.4% - 108.2%

- Actual Reserve Ratio at 12/31/16: 90.4%
- Actual Reserve Ratio at 12/31/17: 103.9%
- Actual Reserve Ratio at 12/31/18: 93.0%
- Actual Reserve Ratio at 12/31/19: 104.9%
- Projected Reserve Ratio at 12/31/20: 104.9%
- Budgeted Reserve Ratio at 12/31/21: 100.6%

2022 and Beyond

- Continue to invest in key regulatory initiatives and support state-based insurance regulation
- Continue to focus on controlling costs, reducing capital investment, and wisely leveraging the NAIC's financial position
- Continue to provide world-class technical and regulatory services to Members

**2021 BUDGET
REVENUE AND EXPENSE SUMMARY**

Description	2019 Actual	2020			2020 Projected Variance	2021				
		6/30/2020 Actual	12/31/2020 Projected	2020 Budget		2021 Budget	Increase (Decrease) from 2020 Budget	%	Increase (Decrease) from 2020 Projected	%
Operational Revenues	\$113,343,127	\$69,578,207	\$112,651,236	\$114,506,088	(\$1,854,852)	\$117,225,061	\$2,718,973	2.4%	\$4,573,824	4.1%
Operational Expenses	117,424,263	54,957,436	116,253,627	125,300,494	(9,046,866)	125,073,350	(227,144)	-0.2%	8,819,722	7.6%
Operating Revenues Over/(Under) Expenses Before Fiscal Impact Statements	(4,081,136)	14,620,771	(3,602,391)	(10,794,406)	7,192,015	(7,848,289)	2,946,117		(4,245,898)	
Fiscal Impact Statement Revenues (1)						2,107,800	2,107,800		2,107,800	
Fiscal Impact Statement Expenses (1)										
Fiscal Impact Statement Revenues Over/(Under) Expenses						(2,107,800)	(2,107,800)		(2,107,800)	
Investment Income	18,030,413	(3,413,916)	3,011,752	3,153,072	(141,320)	1,759,818	(1,393,254)		(1,251,934)	
Total Revenues After Fiscal Impact Statements	131,373,540	66,164,292	115,662,989	117,659,160	(1,996,171)	118,984,879	1,325,719	1.1%	3,321,890	2.9%
Total Expenses After Fiscal Impact Statements	117,424,263	54,957,436	116,253,627	125,300,494	(9,046,866)	127,181,150	1,880,656	1.5%	10,927,522	9.4%
Total Revenues Over/(Under) Expenses	<u>\$13,949,277</u>	<u>\$11,206,856</u>	<u>(\$590,639)</u>	<u>(\$7,641,334)</u>	<u>\$7,050,695</u>	<u>(\$8,196,271)</u>	<u>(\$554,937)</u>		<u>(\$7,605,632)</u>	

(1) See the Fiscal Impact section for details.

**2021 BUDGET WITH FISCAL IMPACT STATEMENTS
REVENUE AND EXPENSE BY LINE**

Description	Reference	2020					2021				
		2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2020 Projected Variance	2021 Budget	Increase (Decrease) from 2020 Budget	%	Increase (Decrease) from 2020 Projected	%
Member Assessments	R1	\$2,109,455	\$1,055,363	\$2,110,951	\$2,110,953	(\$2)	\$2,114,816	\$3,863	0.2%	\$3,865	0.2%
Database Fees	R2	31,003,712	32,001,173	31,995,475	31,776,882	218,593	32,416,728	639,846	2.0%	421,253	1.3%
Publications and Insurance Data Products	R3	16,618,257	11,402,490	17,026,183	16,867,844	158,339	17,048,190	180,346	1.1%	22,006	0.1%
Valuation Services	R4	29,321,356	8,968,077	28,347,014	27,977,053	369,961	28,743,095	766,042	2.7%	396,081	1.4%
Transaction Filing Fees	R5	11,503,240	6,527,411	13,021,994	12,711,651	310,343	14,312,075	1,600,424	12.6%	1,290,081	9.9%
National Meetings, NAIC Events, and Interim Meetings	R6	2,856,154		1,020,494	2,923,648	(1,903,154)	2,805,910	(117,738)	-4.0%	1,785,416	175.0%
Education and Training	R7	312,180	134,275	388,290	400,740	(12,450)	365,663	(35,077)	-8.8%	(22,627)	-5.8%
Administrative Services and License Fees	R8	19,524,587	9,481,751	18,650,205	19,646,917	(996,712)	19,320,684	(326,233)	-1.7%	670,479	3.6%
Other	R9	94,186	7,667	90,630	90,400	230	97,900	7,500	8.3%	7,270	8.0%
Total Operating Revenues		113,343,127	69,578,207	112,651,236	114,506,088	(1,854,852)	117,225,061	2,718,973	2.4%	4,573,824	4.1%
Salaries	E1	52,745,464	28,356,282	56,857,324	55,339,393	1,517,931	58,140,344	2,800,950	5.1%	1,283,020	2.3%
Temporary Personnel	E2	649,631	302,984	734,654	611,936	122,718	946,257	334,321	54.6%	211,603	28.8%
Payroll Taxes	E3	3,562,849	2,207,766	3,903,689	3,636,130	267,559	4,053,328	417,198	11.5%	149,639	3.8%
Employee Benefits	E4	11,488,647	5,576,726	11,985,410	12,285,356	(299,946)	12,809,259	523,903	4.3%	823,849	6.9%
Employee Development	E5	807,066	324,865	712,123	804,191	(92,068)	905,414	101,223	12.6%	193,291	27.1%
Professional Services	E6	15,459,313	5,820,618	17,140,020	17,501,997	(361,978)	15,109,061	(2,392,936)	-13.7%	(2,030,959)	-11.8%
Computer Services	E7	4,688,443	2,353,668	4,895,269	5,765,128	(869,859)	5,357,891	(407,237)	-7.1%	462,622	9.5%
Travel	E8	4,988,672	507,454	957,310	5,264,192	(4,306,883)	4,912,182	(352,011)	-6.7%	3,954,872	413.1%
Occupancy and Rental	E9	4,487,226	2,271,579	4,558,513	4,561,327	(2,814)	4,685,737	124,410	2.7%	127,224	2.8%
Computer Hardware and Software Maintenance	E10	5,311,455	2,952,219	5,846,218	6,033,208	(186,990)	6,367,834	334,626	5.5%	521,616	8.9%
Depreciation and Amortization	E11	4,042,165	2,027,056	4,064,893	4,140,587	(75,694)	4,245,378	104,791	2.5%	180,485	4.4%
Operational	E12	1,864,736	700,191	1,547,033	1,790,279	(243,245)	1,651,247	(139,032)	-7.8%	104,213	6.7%
Library Reference Materials	E13	334,441	155,233	317,233	332,487	(15,254)	336,213	3,726	1.1%	18,980	6.0%
Printing and Production	E14	81,091	7,773	57,603	71,022	(13,418)	53,113	(17,909)	-25.2%	(4,491)	-7.8%
National Meetings, NAIC Events, and Interim Meetings	E15	3,698,417	391,421	851,004	4,133,484	(3,282,480)	3,773,522	(359,962)	-8.7%	2,922,518	343.4%
Education and Training	E16	131,737	18,111	96,967	212,404	(115,437)	272,638	60,234	28.4%	175,671	181.2%
Grant and Zone	E17	1,509,915	79,702	643,974	1,676,730	(1,032,756)	2,409,072	732,342	43.7%	1,765,098	274.1%
Other	E18	1,572,995	903,787	1,084,389	1,140,642	(56,253)	1,152,660	12,018	1.1%	68,271	6.3%
Total Operating Expenses		117,424,263	54,957,436	116,253,627	125,300,494	(9,046,866)	127,181,150	1,880,656	1.5%	10,927,522	9.4%
Revenues Over/(Under) Expenses before Investment Income		(4,081,136)	14,620,771	(3,602,391)	(10,794,406)	7,192,015	(9,956,089)	838,317		(6,353,698)	
Investment Income	II1	18,030,413	(3,413,916)	3,011,752	3,153,072	(141,320)	1,759,818	(1,393,254)		(1,251,934)	
Revenues Over/(Under) Expenses		\$13,949,277	\$11,206,856	(\$590,639)	(\$7,641,334)	\$7,050,695	(\$8,196,271)	(\$554,937)		(\$7,605,632)	

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

BUDGET ITEM: Member Assessments

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

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Member Assessments (1)	\$2,109,455	\$1,055,363	\$2,110,951	\$2,110,953	\$2,114,816	\$3,863	0.2%

(1) In exchange for annual member assessments, the NAIC delivers a wide array of funding, information, products, and services, generally at no charge to state 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 state for the calendar year. The budgeted amount is based on four months of the May 2020 - April 2021 assessment and eight months of the May 2021 - April 2022 assessment. The May 2021 - April 2022 member assessments are illustrated in Exhibit R1-One. Exhibit R1-Two illustrates member assessments and database filing fees as a percentage of total NAIC revenue.

NAIC MEMBER ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$7,339 Minimum \$125,000 Cap 2021/22 Amount	\$7,339 Minimum \$125,000 Cap 2020/21 Amount	\$7,339 Minimum \$125,000 Cap 2019/20 Amount
Alabama	\$28,575,508,953	1.1801%	\$26,944	\$26,944	\$26,834	\$26,712
Alaska	4,115,280,838	0.1700%	3,881	7,339	7,339	7,339
American Samoa	4,005,514	0.0002%	5	7,339	7,339	7,339
Arizona	36,966,143,606	1.5267%	34,858	34,858	34,392	33,359
Arkansas	17,370,768,822	0.7174%	16,380	16,380	15,210	15,016
California	171,189,078,835	7.0700%	161,422	125,000	125,000	125,000
Colorado	41,503,220,688	1.7141%	39,136	39,136	38,487	37,196
Connecticut	39,228,624,859	1.6201%	36,990	36,990	37,257	37,763
Delaware	65,411,419,880	2.7014%	61,678	61,678	64,986	74,840
District Of Columbia	10,896,471,516	0.4500%	10,274	10,274	10,536	10,262
Florida	179,061,936,048	7.3951%	168,845	125,000	125,000	125,000
Georgia	67,834,273,514	2.8015%	63,964	63,964	64,604	63,225
Guam	579,084,346	0.0239%	546	7,339	7,339	7,339
Hawaii	13,590,250,707	0.5613%	12,816	12,816	13,408	13,436
Idaho	9,970,954,327	0.4118%	9,402	9,402	9,266	8,794
Illinois	93,835,739,361	3.8753%	88,481	88,481	86,309	87,716
Indiana	44,381,194,787	1.8329%	41,849	41,849	41,394	41,633
Iowa	37,949,905,409	1.5673%	35,785	35,785	34,546	39,796
Kansas	22,582,882,479	0.9327%	21,295	21,295	21,608	23,176
Kentucky	31,045,002,607	1.2821%	29,273	29,273	29,841	29,982
Louisiana	38,351,205,806	1.5839%	36,164	36,164	36,346	36,273
Maine	8,581,471,848	0.3544%	8,092	8,092	8,334	7,972
Maryland	40,884,905,432	1.6885%	38,552	38,552	38,839	38,767
Massachusetts	59,888,006,625	2.4733%	56,470	56,470	57,043	57,021
Michigan	73,339,631,869	3.0289%	69,156	69,156	71,237	72,698
Minnesota	46,743,992,882	1.9305%	44,077	44,077	44,356	44,708
Mississippi	16,723,728,099	0.6907%	15,770	15,770	16,191	15,937
Missouri	41,370,933,619	1.7086%	39,011	39,011	40,307	39,455
Montana	5,854,019,645	0.2418%	5,521	7,339	7,339	7,339
Nebraska	15,996,556,788	0.6606%	15,083	15,083	14,995	14,525
Nevada	19,011,498,491	0.7852%	17,928	17,928	17,801	16,927
New Hampshire	9,825,074,768	0.4058%	9,265	9,265	10,288	9,251
New Jersey	81,830,573,965	3.3795%	77,161	77,161	76,422	76,073
New Mexico	14,648,648,669	0.6050%	13,813	13,813	13,645	13,462
New York	215,785,801,880	8.9118%	203,474	125,000	125,000	125,000
North Carolina	57,756,942,542	2.3853%	54,461	54,461	54,938	55,477
North Dakota	6,659,588,132	0.2750%	6,279	7,339	7,339	7,339
Northern Mariana Islands	74,804,841	0.0031%	71	7,339	7,339	7,339
Ohio	102,290,832,786	4.2245%	96,454	96,454	93,648	87,048
Oklahoma	21,211,481,546	0.8760%	20,001	20,001	20,448	20,137
Oregon	27,420,943,756	1.1325%	25,857	25,857	25,592	25,060
Pennsylvania	118,856,944,147	4.9087%	112,075	112,075	105,704	104,311
Puerto Rico	14,897,357,080	0.6153%	14,049	14,049	13,688	13,344
Rhode Island	9,792,875,038	0.4044%	9,233	9,233	9,277	9,346
South Carolina	32,525,048,547	1.3433%	30,670	30,670	30,277	29,704
South Dakota	6,936,917,157	0.2865%	6,541	7,339	7,339	7,339
Tennessee	45,476,475,128	1.8781%	42,881	42,881	44,474	43,646
Texas	186,755,224,934	7.7129%	176,101	125,000	125,000	125,000
US Virgin Islands	513,890,364	0.0212%	484	7,339	7,339	7,339
Utah	18,233,951,974	0.7530%	17,192	17,192	17,464	16,531
Vermont	3,936,163,806	0.1626%	3,712	7,339	7,339	7,339
Virginia	57,263,988,051	2.3650%	53,998	53,998	52,166	50,546
Washington	48,402,419,919	1.9990%	45,641	45,641	44,743	45,186
West Virginia	10,945,077,183	0.4520%	10,320	10,320	10,640	10,663
Wisconsin	43,202,981,602	1.7843%	40,739	40,739	40,246	40,136
Wyoming	3,267,807,253	0.1350%	3,082	7,339	7,339	7,339

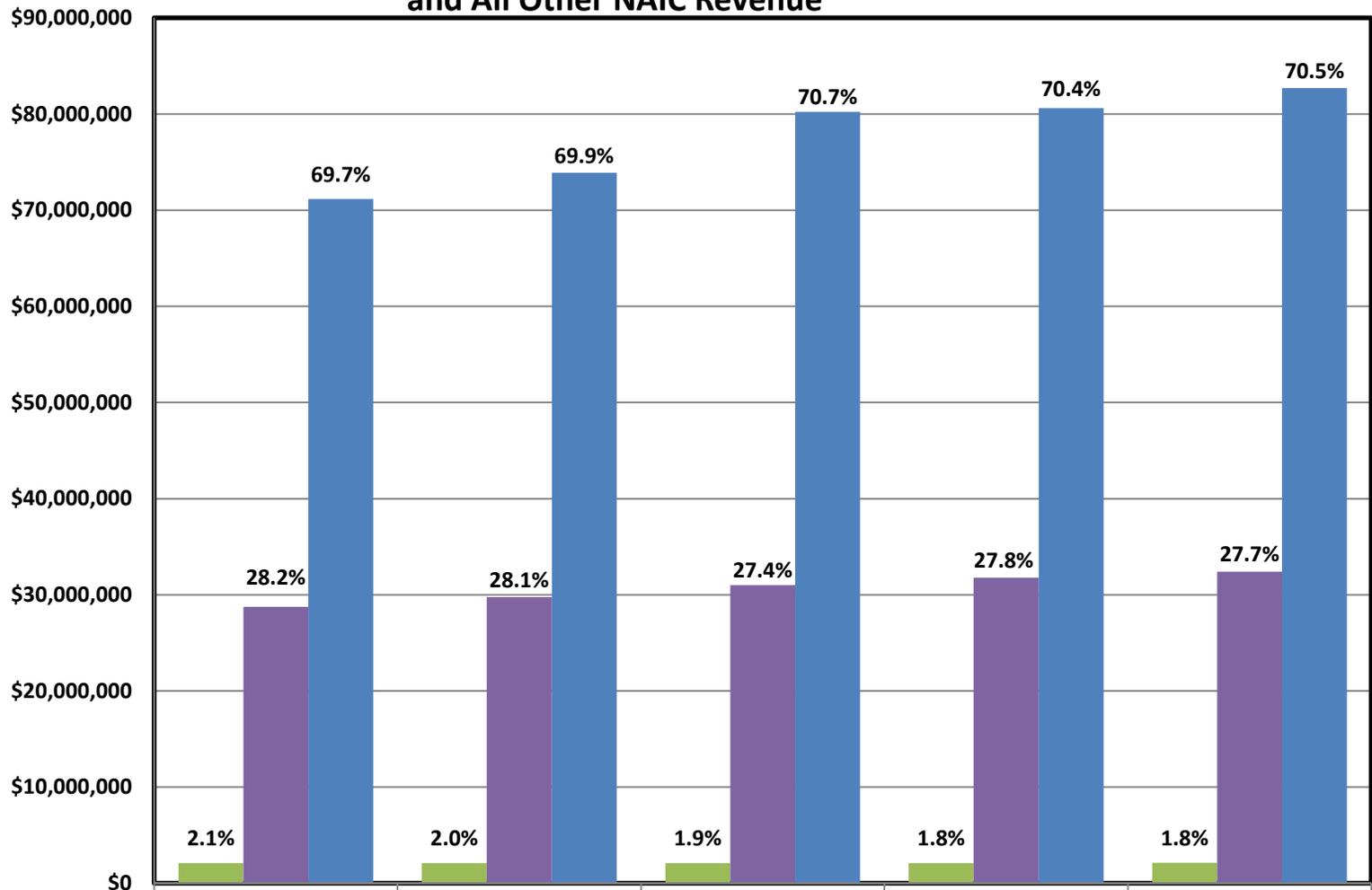
Total Member Assessments	\$2,421,349,513,268	100.00%	\$2,283,202	\$2,116,628	\$2,111,177	\$2,110,500
--------------------------	---------------------	---------	-------------	-------------	-------------	-------------

Four months of the May 2020-April 2021 assessment	\$703,729
---	-----------

Eight months of the May 2021-April 2022 assessment	1,411,087
--	-----------

Total calendar year 2021 assessment	\$2,114,816
-------------------------------------	-------------

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



	Actual 2017	Actual 2018	Actual 2019	Budget 2020	Budget 2021
Member Assessments	\$2,110,636	\$2,108,679	\$2,109,455	\$2,110,953	\$2,114,816
Database Fees	\$28,734,510	\$29,750,827	\$31,003,712	\$31,776,882	\$32,416,728
Other Operating Revenue	\$71,162,118	\$73,881,959	\$80,229,959	\$80,618,253	\$82,693,517

BUDGET ITEM: Database Fees

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

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$31,003,712	\$32,001,173	\$31,995,475	\$31,776,882	\$32,416,728	\$639,846	2.0%

(1) The NAIC uses annual database filing fee revenues to support its financial solvency program, including a number of solvency monitoring tools provided to state insurance regulators. Company financial information is generally available to state 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.

In 2017, database filing fees were recalibrated to simplify the complex, multi-tiered system with significant disparity in the amount small individual companies paid in relation to their premiums, as compared to larger companies within groups, particularly those within groups that exceeded the group cap. In addition, tier sizes were not consistent. The first six tiers had relatively small premium ranges as compared to the remaining tiers, resulting in companies with significantly different annual premiums paying the same database filing fee. The tiered structure was replaced with a formulaic approach which charges the same fee per million in insurance premiums. The recalibration of filing fees reduced the disparity of fees while retaining the individual company and group cap structure and a minimum filing fee. The recalibration more evenly distributed funding of major investments in important regulatory initiatives, including NAIC systems and technology infrastructure, all of which benefit state insurance regulators, consumers, and the insurance industry.

Database filing fees projected for 2020 are based on actual 2019 data year filings received in 2020 through August 31. The projected over budget variance reflects premium growth within the industry greater than the anticipated average of 2.0%. The 2021 budget incorporates a 0.5% expected increase in premiums over current year filings. Additionally, the year-end 2019 CPI-U of 2.2% has been applied to filing fee caps for 2021 resulting in a group cap of \$269,490 and an individual company cap of \$89,830. The filing fee floor has also been increased by the CPI-U factor from \$235 to \$240 and the combined filing fee has been increased from \$675 to \$690. The filing fee calculation of \$26 per million in premium volume remains the same. With the 0.5% premium growth assumption incorporated in the calculation of 2021 filing fees, 30 groups with premiums of nearly \$1.2 trillion are expected to hit the group filing fee cap. These groups are expected to have a reduction in fees of nearly \$11.1 million. This represents a 57.8% reduction in database filing fees for the filing companies and a 25.5% 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	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Publications (1)	\$1,661,342	\$433,144	\$1,004,924	\$1,526,699	\$948,776	(\$577,923)	-37.9%
Online Subscription Services (1)	324,976	215,290	583,229	418,847	832,442	413,594	98.7%
Insurance Data Products (2)	10,479,219	8,582,612	11,204,505	10,738,128	10,945,027	206,899	1.9%
Filing Support Product Platform (3)	4,152,720	2,171,445	4,233,525	4,184,170	4,321,945	137,775	3.3%
Total	\$16,618,257	\$11,402,490	\$17,026,183	\$16,867,844	\$17,048,190	\$180,346	1.1%

(1) Publications and Online Subscription Services revenue is generated from the sale of 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 state insurance regulators with handbooks, statistical reports, and white papers, in an effort to offer best practices and coordinated regulatory approaches to the state-based system of insurance regulation and (2) provide the insurance industry with a variety of handbooks, tools, and electronic applications to facilitate industry compliance with state insurance regulatory requirements. The sale of printed materials are recorded as Publications, while the sale of materials through the digital subscription service are recorded as Online Subscription Services.

The NAIC began a campaign to convert several hardcopy publications to digital format during 2019. This effort was expanded to all publications in 2020. The under budget projection for 2020 and the reduction in revenue for 2021 for these categories as a whole reflects the difference in accounting for the two methods of delivery. With hardcopy delivery, the Publications category, revenue is recognized as the product is shipped. With the online subscription services, customers have access to the delivery system and the purchased online product for a period of one-year. Thus revenue for this method of delivery is recognized over 12 months, which can delay a portion of the recognition of revenue until the following year. Additionally, the NAIC has seen a continued decline in the sale of these materials for several years. The price of hardcopy publications will increase 10% in 2021 due to the rising cost of producing materials in this format. The subscription fee for the online service will increase by 5% to cover the cost to maintain this delivery platform.

(2) Revenues generated from the sale of insurance data products include (1) contracts with third-party vendors who use, market, and sometimes redistribute NAIC data (\$10.1 million) and (2) direct sales to customers (\$900,000). This data is leveraged to conduct research and benchmark specific company data and performance to various industry aggregates, among other activities. The over budget variance in 2020 is related to historical data licensed to a government agency for its internal use. While sales to this agency will continue in future years, it will only be for the current year. The budgeted increase in revenue in 2021 is related to minor (5% or less) price increases for contractual and direct sales agreements. The price for downloads will increase \$0.50, from \$12.50 to \$13.00 for annual download and from \$3.75 to \$4.25 for quarterly downloads.

(3) Several business partners leverage the NAIC Filing Support Product (FSP) Platform in order to ensure accurate submissions of quarterly and annual filings to the NAIC. Licensed services include (1) Annual Statement Filing Support Product (ASFSP); (2) Risk-Based Capital Filing Support Product (RBCFSP); (3) Annual Statement Instructions; and (4) Risk-Based Capital Forecasting. Royalties from the three largest contracts are expected to exceed budget in 2020. The increase in royalties is expected to continue in 2021.

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	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Capital Markets and Investment Analysis Fees (1)	\$11,254,824	\$5,373,925	\$11,282,725	\$11,678,175	\$11,861,075	\$182,900	1.6%
Structured Securities (2)	12,451,837	523,163	10,852,900	10,097,000	10,708,697	611,697	6.1%
Automated Valuation Service (3)	5,614,695	3,070,989	6,211,389	6,201,878	6,173,323	(28,555)	-0.5%
Total	\$29,321,356	\$8,968,077	\$28,347,014	\$27,977,053	\$28,743,095	\$766,042	2.7%

(1) The NAIC's Capital Markets and Investment Analysis business units provide state regulators with investment security valuations, capital markets analysis, research, and evaluations of insurer investment portfolio risks. Revenues generated from Capital Markets and Investment Analysis fees in 2020 are projected to be below budget due to a decrease in the number of filings received. The 2021 budget anticipates a slight increase in volumes over 2020 and includes price adjustments ranging from \$25 to \$200. Five products will have a price increase of \$200, two of \$100, one of \$75, nine of \$50, and the remainder at \$25. The Securities Valuation Office (SVO) pricing adjustments represent a continued effort to align fees with the effort expended to perform ratings analysis and the increasing cost of doing business.

Capital Markets and Investment Analysis revenues include (1) \$9.9 million for securities designated by the SVO (as illustrated in Exhibit R4-One); (2) \$506,050 for the processing of subsidiary valuation filings; (3) \$281,500 for advanced rating services; (4) \$129,975 in services provided to banks and financial institutions that wish to be placed on the NAIC List of Qualified U.S. Financial Institutions; (5) \$105,150 in service fees for the review of money market funds; (6) \$193,050 in service fees for the review of exchange traded funds; (7) \$10,000 in service fees for the review of working capital financial investments; (8) \$34,450 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) \$56,225 in service fees for the review of counterparty derivatives; (10) \$482,375 in private letter ruling fees; (11) \$189,000 for the right for redistributors to use SVO exchange traded fund designations; (12) \$12,875 in appeals fees; and (13) \$5,000 in investment analyst report fees generated through the work of the Capital Markets Bureau.

(2) Structured Securities revenues are generated from the sale of modeled residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by insurance companies at the end of each year, as well as advanced rating services for structured securities. Revenue is based on per-security sales to insurers based on their year-end holdings and the sale of complete RMBS, CMBS, or RMBS/CMBS datasets to third parties. The projected over performance for 2020 is based on an expected increase in rating volume for all services. The 2021 budget anticipates a decrease in the volume of advanced rating requests and the number of RMBS ratings, partially offset by an increase in the number of CMBS ratings. The 2021 RMBS price per security will increase from \$70 to \$75 and CMBS price per security will increase from \$100 to \$105. The last price increase was in 2017.

(3) The Automated Valuation Service (AVS+) is the NAIC's electronic system for the delivery of security designations assigned by the SVO. The AVS+ system is utilized by companies when preparing their Schedule D filings. Fees are based on the value of assets held in a company's portfolio. The 2021 budget anticipates a slight decrease in the expected number of subscriptions. The reactivation fee will increase from \$500 to \$1,000, increasing budgeted revenue by \$4,500.

Securities Designated by the Securities Valuation Office

Product Description	2020 Filing Fee	2021 Filing Fee	2021 Budgeted Volumes	2021 Budgeted Revenue
Corporates				
Regulatory Transactions - Initial	\$10,000	\$10,000	5	\$50,000
Regulatory Transactions - Annual	\$5,000	\$5,000	35	\$175,000
Corporate Initial Rated	\$300	\$325	8	\$2,600
Corporate A/U Rated	\$325	\$325	70	\$22,750
Corporate Initial Issuer Not in VOS	\$5,000	\$5,000	252	\$1,260,000
Corporate Initial Issuer Not in VOS Foreign	\$5,500	\$5,500	76	\$418,000
Corporate A/U Not Rated	\$1,725	\$1,725	947	\$1,633,575
Corporate A/U Not Rated Foreign	\$1,850	\$1,850	300	\$555,000
Corporate Initial Not Rated	\$1,725	\$1,725	202	\$348,450
Corporate Initial Not Rated Foreign	\$1,850	\$1,850	62	\$114,700
Corporate Initial Expired Info Request	\$300	\$325	54	\$17,550
Corporate Annual Expired Info Request	\$300	\$325	9	\$2,925
Corporate Rejected Filing	\$300	\$325	255	\$82,875
Corporate A/U Issuer CRP Rated	\$575	\$575	532	\$305,900
Corporate A/U Issuer Rated Add Issue	\$225	\$275	3,400	\$935,000
Corporate Initial Issuer CRP Rated	\$1,725	\$1,725	215	\$370,875
Corporate Initial Issuer Rated Add Issue	\$1,725	\$1,725	401	\$691,725
Corporate Material Change	\$300	\$500	19	\$9,500
Schedule BA Initial Not in VOS	\$5,000	\$5,000	5	\$25,000
Schedule BA Annual Rated	\$300	\$325	11	\$3,575
Schedule BA Annual VOS Not Rated	\$1,725	\$1,725	34	\$58,650
SCH BA Expired Info Request	\$300	\$325	1	\$325
Schedule BA A/U Issuer CRP Rated	\$575	\$575	2	\$1,150
Schedule BA A/U Issuer Rated Add Issue	\$225	\$275	14	\$3,850
Schedule BA Rejected Filings	\$300	\$325	3	\$975
Municipals				
Municipal Initial Rated	\$300	\$325	38	\$12,350
Municipal Initial Issuer Not in VOS	\$5,000	\$5,000	22	110,000
Municipal A/R VOS Not Rated	\$1,725	\$1,725	72	124,200
Municipal Initial Not Rated	\$1,725	\$1,725	6	10,350
Municipal Initial Expired Info Request	\$300	\$325	1	325
Municipal Annual Expired Info Request	\$300	\$325	1	325
Municipal A/R Issuer CRP Rated	\$575	\$575	38	21,850
Municipal Initial Issuer CRP Rated	\$1,725	\$1,725	9	15,525
Municipal Initial Issuer Rated Add Issue	\$1,725	\$1,725	11	18,975
Municipal Annual Lottery Add Issue	\$225	\$275	41	11,275
Municipal Initial Lottery	\$1,350	\$1,350	6	8,100
Municipal Annual Lottery	\$750	\$750	26	19,500
Municipal Initial Pre-Refunded	\$1,350	\$1,350	86	116,100
Municipal Annual Pre-Refunded	\$1,350	\$1,350	2	2,700
Municipal A/R Issuer Rated Add Issue	\$225	\$275	45	12,375
Municipal Rejected Filing	\$300	\$325	30	9,750
Structured				
Struct CTL Annual Rated	\$325	\$375	1,070	401,250
Struct CTL Annual Not Rated	\$1,725	\$1,725	2	3,450
Structured Initial Rated	\$300	\$325	51	16,575
Military Housing Bonds Initial	\$5,000	\$5,000	1	5,000
Structured A/U Rated	\$325	\$325	238	77,350
Structured Replication A/U	\$325	\$325	871	283,075
Military Housing Bonds Annual	\$1,725	\$1,725	30	51,750
Structured Initial Expired Info Request	\$300	\$325	2	650
Structured Non-Billable Filing	\$0	\$0	40	0
Structured CTL Bond Initial	\$1,725	\$1,725	13	22,425
Structured CTL Lease Initial	\$2,575	\$2,575	47	121,025
Structured A/U Not Rated	\$1,725	\$1,725	13	22,425
Structured Replication Initial	\$1,725	\$1,725	528	910,800
Structured Replication Collateral	\$375	\$375	428	160,500
Structured Annual Structured Settlement	\$575	\$575	71	40,825
Structured Initial ETFs	\$2,575	\$2,575	20	51,500
Structured Annual ETFs	\$1,725	\$1,725	55	94,875
Structured Rejected Filing	\$300	\$325	24	7,800
Structured Material Change	\$300	\$500	1	500
				<u>\$9,855,425</u>

BUDGET ITEM: Transaction Filing Fees

Item Description: Transaction filing fees to assist state departments of insurance with regulatory filings, including System for Electronic Rates and Forms Filings (SERFF), Online Premium Tax for Insurance (OPT_{ins}), State Based Systems (SBS), and the International Insurers Department (IID).

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
SERFF Fees (1)	\$5,077,444	\$2,904,842	\$5,519,205	\$5,169,378	\$5,409,052	\$239,674	4.6%
SERFF Data Hosting (2)	54,380	566,008	1,043,654	964,750	1,525,323	560,573	58.1%
OPT _{ins} Fees (3)	1,091,270	738,903	1,136,551	1,091,025	1,852,302	761,277	69.8%
SBS Fees (4)	4,424,546	2,260,058	4,511,259	4,683,938	4,679,084	(4,854)	-0.1%
IID Fees (5)	855,600	57,600	811,325	802,560	846,314	43,754	5.5%
Total	\$11,503,240	\$6,527,411	\$13,021,994	\$12,711,651	\$14,312,075	\$1,600,424	12.6%

(1) SERFF is licensed and used by 52 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 turnaround, more consistent review, and better reporting. Companies experience significant cost savings and efficiency through the electronic submission of product filings to multiple jurisdictions, saving personnel and mailing costs by streamlining the submission process. Revenue for SERFF usage fees is expected to exceed budget in 2020 due to an increase in the number of filings received and recognition of expired, unused prepaid filing blocks. The 2021 budget is based on the volume of transactions projected for 2020 and includes a \$0.25 price increase in the SERFF filing fee across all rate tiers. It includes a small amount for block expiration revenue as the SERFF pricing model does away with prepaid blocks in 2021.

Also included in the SERFF revenue line is \$516,900 for Integration Expansion license fees and \$25,000 annual license fee from the Interstate Insurance Product Regulation Commission (IIPRC). Integration Expansion license fees are expected to fall short of budget in 2020 as a result of a lag in implementation of this product by other entities. This delay is factored into the 2021 budget. Under the NAIC/IIPRC license and services agreement, the IIPRC 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 IIPRC filings and the overall expansion/enhancements of IIPRC product filing operations.

(2) NAIC began hosting insurers' rate and form filings data in late 2019. Response to this product offering has been greater than expected. The 2021 budget incorporates this higher than expected response to this service for a full year, using a new marginal tiered rate structure with a lower minimum filing fee, as well as lower fees per filing for each tier, as compared to the 2020 pricing model.

(3) The NAIC's online premium tax submission and payment system (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 by states, in exchange for a transaction fee on a sliding scale of \$1 to \$10 per transaction in 2020 and \$1 to \$15 in 2021. 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 and electronic payment of quarterly and annual premium taxes. Projections for 2020 and the 2021 budget show continued growth in the use of these services as well as the impact of the first price increase for some transactions since the product was launched in 2008.

BUDGET ITEM: Transaction Filing Fees (continued)

- (4) SBS provides a comprehensive web-based application for use by state regulators in support of all state-based insurance regulatory functions. SBS is currently in service in 29 jurisdictions, with one state in process of implementation and two additional states in the planning phase of implementation. SBS enables state insurance regulators to more efficiently and effectively process license applications, license renewals, consumer inquiries, consumer complaints, and enforcement actions, among other regulatory applications, and remain compliant with national insurance regulation uniformity initiatives. Through SBS both regulated entities and state insurance regulators experience significant cost savings and efficiency by automation of state 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 managing the cost of compliance, and far exceeds the insignificant processing fees charged by the NAIC in facilitating electronic transactions. Further, SBS generates voluntary transaction fees from users who leverage the SBS system to complete regulatory transactions, which further illustrates the benefit of value-added services to both state insurance regulators and the insurance industry. During 2020, there were delays in processing rosters due to the Coronavirus (COVID-19) pandemic, resulting in fewer continuing education transactions being submitted to SBS. The 2021 budget assumes no delays. There has been a slight decline in the number of producer information reports processed through SBS over the past few years. The decreasing level of report requests had been incorporated into the 2021 budget.
- (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 2021 budget is based on 157 filings from companies and Lloyd's Syndicates, four new applications, and two late fees. The IID received more applications than budgeted in 2020. The 2021 budget includes a \$262 increase in the filing fee, to \$5,062 and a \$524 increase in the application fee, to \$10,124. Fees were last increased in 2017.

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings

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

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
National Meeting Registration Fees (1)	\$2,493,442		\$951,369	\$2,443,723	\$2,445,285	\$1,562	0.1%
International Insurance Forum (2)	89,500			84,000	89,500	5,500	6.6%
Insurance Summit (3)	273,212		69,125	271,125	271,125		0.0%
IAIS (4)				124,800		(124,800)	-100.0%
	<u>\$2,856,154</u>		<u>\$1,020,494</u>	<u>\$2,923,648</u>	<u>\$2,805,910</u>	<u>(\$117,738)</u>	<u>-4.0%</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 and local attendees. In response to the COVID-19 pandemic the NAIC cancelled the 2020 Spring National Meeting and converted the 2020 Summer and Fall National Meetings to a virtual format at a reduced registration fee. The number of registrations budgeted for 2021 national meetings are based on location and a return to in-person meetings. The 2021 national meeting registration fee is the same as 2020.
- (2) The 2020 International Insurance Forum was cancelled in response to the COVID-19 pandemic. This event is budgeted to occur in 2021.
- (3) Revenue from the NAIC Insurance Summit is generated by registration fees for participants and sponsorship fees for exhibitors. Revenue from the 2020 Summit is below budget as this event was converted to a virtual meeting in light of the COVID-19 pandemic. The 2021 Summit is budgeted as an in-person meeting to be held in June in Kansas City, MO.
- (4) The 2020 IAIS Joint Committee Meeting and Global Seminar, to be hosted by the NAIC in Seattle, WA, was cancelled in response to the pandemic.

National Meeting Registrations

	Dallas, TX		Columbus, OH		San Diego, CA		Total		
	Fee	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
Advance Registration	\$775	888	\$688,200	907	\$702,925	932	\$722,300	2,727	\$2,113,425
Registration after 30 Days Prior	\$875	115	100,625	118	103,250	121	105,875	354	309,750
First Time, Local Registrants	\$438	30	13,140	31	13,578	32	14,016	93	40,734
Subtotal		1,033	801,965	1,056	819,753	1,085	842,191	3,174	2,463,909
Cancellations	\$388	(16)	(6,208)	(16)	(6,208)	(16)	(6,208)	(48)	(18,624)
Total Projected Paid Attendance and Revenues		1,017	\$795,757	1,040	\$813,545	1,069	\$835,983	3,126	\$2,445,285
Total Projected Registrations (Paid and Unpaid)		2,000		2,050		2,100		6,150	

2021 attendance projections were determined by taking into consideration location and past attendance.

Prior Year Paid Attendance Statistics:	Spring		Summer		Fall	
2020	Cancelled	Phoenix	808	Virtual		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
2016	983	New Orleans	964	San Diego	991	Miami Beach
2015	1,027	Phoenix	1,105	Chicago	1,070	Washington, D.C.
2014	957	Orlando	931	Louisville	1,072	Washington, D.C.
2013	930	Houston	947	Indianapolis	1,024	Washington, D.C.
2012	987	New Orleans	898	Atlanta	1,008	Washington, D.C.
2011	998	Austin	(cxl'd)	Philadelphia	1,050	Washington, D.C.
	<u>8,884</u>		<u>8,827</u>		<u>8,887</u>	
Average attendance - four prior meetings	996		996		916	

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education and training programs.

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Education and Training (1)	\$312,180	\$134,275	\$388,290	\$400,740	\$365,663	(\$35,077)	-8.8%

(1) The purpose of the Education and Training function within the NAIC is to manage the NAIC’s regulatory curriculum. The core focus is on identifying and seizing opportunities to develop just-in-time, on-demand, and/or unmanned training and development of products, while assuring the integrity and comprehensiveness of the curriculum as a whole. In the examination of education opportunities, the goal is to achieve a balance between meeting the regulatory training needs of Department of Insurance employees and assisting industry clients through a broader range of compliance training topics. The NAIC educational curriculum is offered to Department of Insurance employees and Consumer Advocates at no charge. Educational programs are short courses with highly targeted curriculum. Projected revenue for 2020 reflects a decline in registrations for technical-related trainings. The 2021 budget assumes technical-training requests will remain at the lower level and registrations for reporting-related courses will also decline.

BUDGET ITEM: Administrative Services and License Fees

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
License Fees (1)	\$17,264,932	\$8,242,689	\$16,244,926	\$17,165,443	\$16,687,624	(\$477,819)	-2.8%
Administrative Service/System Usage Fees (2)	2,259,655	1,239,062	2,405,279	2,481,474	2,633,060	151,586	6.1%
Total	\$19,524,587	\$9,481,751	\$18,650,205	\$19,646,917	\$19,320,684	(\$326,233)	-1.7%

Administrative services and license fees are derived from agreements between the NAIC and NIPR and the NAIC and IIPRC. The license and services agreement between NAIC and NIPR includes license fees and administrative services fees and began on January 1, 2018, for a five-year period. The license and services agreement between the NAIC and IIPRC 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, 2020.

- (1) Pursuant to the 2018 license and services agreement, the NAIC receives 38% of certain NIPR revenues, which represents a license for NIPR to use the NAIC's producer data. The 2020 projection and 2021 budget are based on revenue projections provided by NIPR. The projected decrease from the 2020 budget is attributable to the COVID-19 pandemic. Extension of license renewal deadlines due to the closure of examination centers and limits on background checks have reduced the number of transactions flowing through NIPR. The 2021 budget assumes a slight increase in activity but does not anticipate a return to the number of pre-COVID transactions.

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

Without the centralized database, this research would have to occur on a state-by-state 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. The PDB is now the data source for companies to synchronize their producer data systems, which automates data entry and gets the carrier closer to producer real-time expectations. Use of the data supports compliance management and eliminates costly errors.

Specific to the individual producer licensing transactions offered by NIPR, a non-resident producer wishing to be licensed in a large number of non-resident states (e.g., 50 states) is able to leverage NIPR's non-resident licensing (NRL) transaction functionality to submit one electronic, uniform application at a current maximum price of \$6.18 for each of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands, and receive the approval or declination of the application generally within 48 hours. NIPR also provides electronic processing for resident licensing and adjuster licensing for most states. Absent NIPR's web-based option, the producer would have been required to submit paper applications via U.S. Mail (perhaps by fax in some states) to each of the 50 states and territories. Value propositions include (1) lower cost to the producer and the insurance industry to submit the uniform application through NIPR's system compared to the cost of (i) printed mailings and (ii) the potential cost of preparing multiple required forms in cases where the uniform application is not accepted manually and (2) reduced administrative cost to the producer and the insurance industry in monitoring the status of the printed applications versus receiving the electronic notification of approval in 48 hours.

The current license and services agreement with IIPRC calls for an adjustable administrative fee of 7.5% of revenues in excess of expenses, measured in \$25,000 increments. This administrative fee was first triggered in 2018. The 2020 projection as well as the 2021 budget for this fee is \$5,625, based on earnings projections provided by IIPRC.

- (2) Administrative services fees includes the actual cost of services provided to NIPR and a flat fee of \$125,000 for services provided to IIPRC. These services include administrative support services, facilities, and equipment provided by the NAIC. The 2021 budget reflects the anticipated increase in the use of tools for cloud computing.

BUDGET ITEM: Other

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

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Other (1)	\$94,186	\$7,667	\$90,630	\$90,400	\$97,900	\$7,500	8.3%

(1) The 2021 budget includes (1) \$65,000 for a tax rebate related to the Kansas City leasehold; (2) \$12,000 for a service level agreement with the New York State Insurance Department to accept supplemental filings to the Annual Statement submitted to the Department by New York licensed insurers through the NAIC's internet filing application; (3) \$13,900 for rebates related to the use of purchasing cards; and (4) \$4,500 for software maintenance fees. The 2021 budget anticipates a slight increase in the tax rebate compared to 2020.

R9: Other

BUDGET ITEM: Salaries

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Salaries (1)	\$52,629,274	\$28,294,658	\$56,734,616	\$55,253,085	\$58,032,527	\$2,779,442	5.0%
Overtime (2)	116,190	61,624	122,708	86,308	107,817	21,508	24.9%
Total	<u>\$52,745,464</u>	<u>\$28,356,282</u>	<u>\$56,857,324</u>	<u>\$55,339,393</u>	<u>\$58,140,344</u>	<u>\$2,800,950</u>	5.1%

(1) The salary line includes amounts paid to employees such as wages, promotions, adjustments, and accrued vacation expense. 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. The NAIC uses local and national salary surveys such as the William Mercer Compensation Planning Survey, the Hay Group Survey, and the World at Work Salary Budget Survey when assessing potential increases at the start of the salary increase process in January of each year. The NAIC also assesses the ability to attract and retain qualified staff members in its highly competitive technical and professional environment while being mindful of state budget challenges. The majority of the NAIC's staff are located in the tight Kansas City labor market, making it difficult to attract and retain talented resources in highly specialized fields due to increased competition.

The COVID-19 pandemic has had a direct impact on salary expense. As a result of continued economic concern, turnover is half the normal rate and expense related to accrued but unused vacation continues to increase as employees are taking fewer days off. These factors will cause salary expense to exceed budget in 2020.

As of September 30, 2020, the NAIC has 495.5 approved full-time equivalent (FTE) positions. There are no requested additional headcount in the 2021 budget. The 2021 budget includes \$1,150,000 in funding for salary increases, adjustments, and promotions and assumes the continuation of lower turnover and higher than usual accumulation of unused vacation, resulting in a 2.3% increase in budgeted salary expense in 2021 compared to 2020 projections.

(2) The overtime budget reflects the amount of overtime required to support NAIC functions during the year. Examples include (1) additional hours worked by technical staff to establish and support a completely virtual work environment with the onset of the pandemic; (2) additional hours worked by desktop computer technicians during software rollouts, outages, and unexpected absences by team members; (3) travel time and additional hours for administrative staff who support the three NAIC National Meetings and other NAIC events during the year; (4) additional hours worked by Service Desk staff to address customer needs; and (5) additional hours worked by staff during state and system implementations. The over budget variance in 2020 reflects the unexpected need to establish and support a completely virtual work environment for the entire association. The 2021 budget anticipates the continued elevation in customer support efforts, both external and internal.

BUDGET ITEM: Temporary Personnel

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
National Meetings (1)	\$67,728	\$381	\$381	\$87,956	\$61,646	(\$26,310)	-29.9%
Interns (2)	429,741	209,236	506,236	499,380	561,958	62,578	12.5%
Other (3)	152,162	93,368	228,038	24,600	322,654	298,054	1211.6%
Total	\$649,631	\$302,984	\$734,654	\$611,936	\$946,257	\$334,321	54.6%

- (1) Temporary resources for national meetings are used for security and door monitoring purposes. Hotel configurations and meeting schedules dictate the amount of temporary services required at each national meeting. The 2020 projection reflects the cancellation of the Spring National Meeting and conversion of the Summer and Fall National Meetings to virtual events. The decrease in the 2021 budget from the prior year is the result of favorable rates for national meeting locations during 2021.
- (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 SBS systems testing; SERFF product support; support for the Talent Management and Human Resources Divisions; support for the NAIC's digital library collection; statistical research; data security support; and legal research. The use of interns allows the NAIC to find and attract temporary resources, in a competitive marketplace, resulting in a very successful program for the NAIC with respect to identifying and retaining qualified candidates for full-time positions. The 2021 budget includes requests for two additional interns in highly leveraged areas of the NAIC.
- (3) Other temporary personnel are budgeted to provide additional resources during periods of increased demand or unusual vacancies and resources in specialized areas of concentrated effort that will be for a short period of time, such as data research. During 2020 the need for these resources is much greater than expected, and includes post-doctorial resources to work in the Center for Insurance Policy & Research (CIPR). The need for these highly skilled individuals in CIPR will continue in 2021.

BUDGET ITEM: Payroll Taxes

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
FICA (1)	\$3,507,074	\$2,169,912	\$3,862,835	\$3,596,402	\$3,991,890	\$395,488	11.0%
Unemployment Compensation (2)	55,775	37,854	40,854	39,728	61,438	21,710	54.6%
Total	<u>\$3,562,849</u>	<u>\$2,207,766</u>	<u>\$3,903,689</u>	<u>\$3,636,130</u>	<u>\$4,053,328</u>	<u>\$417,198</u>	11.5%

(1) FICA expense is above budget in 2020 due to higher than expected salary expense. The increase in budgeted FICA for 2021 is related to the increase in the 2021 salary budget as described in the salary section of this budget and the annual expected increase in the salary limit subject to FICA.

(2) Unemployment compensation will exceed budget in 2020 due to higher than expected rates during 2020. The 2021 budget incorporates this increase, and an increase in the number of interns and temporary employees.

BUDGET ITEM: Employee Benefits

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Retirement Benefits (1)	\$6,131,535	\$3,173,353	\$6,523,353	\$6,260,717	\$6,800,364	\$539,647	8.6%
Health Benefits (2)	3,988,855	1,860,862	4,410,646	4,980,283	4,828,630	(151,653)	-3.0%
Group Life and Disability	254,942	130,832	253,232	251,396	275,555	24,159	9.6%
Employee Relations (3)	1,113,315	411,679	798,179	792,960	904,710	111,750	14.1%
Total	<u>\$11,488,647</u>	<u>\$5,576,726</u>	<u>\$11,985,410</u>	<u>\$12,285,356</u>	<u>\$12,809,259</u>	<u>\$523,903</u>	4.3%

(1) Retirement benefits includes 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 \$4.0 million in 2021. This expense is budgeted to increase \$277,000 from projected 2020 expenses and \$199,700 from the 2020 budget based on (1) current staff contribution rates and (2) increased salary base in 2021.

Also included in this line is the NAIC's defined benefit plan (DBP). The NAIC Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years beginning with the December 31, 2017, measurement date. The goal of this strategy is to be fully funded with no unrecognized expense by the end of 2021. This approach results in projected expense for 2020 of \$2.8 million and budgeted 2021 expense of \$2.8 million. Consistent with prior years, the 2021 budget and 2020 projection include \$300,000 for estimated settlement accounting for this plan, which represents the best available measurement of additional costs to be incurred if several long-term employees in this plan choose to retire. NAIC management works closely with the NAIC Internal Administration (EX1) Subcommittee, the plan's actuary, and the NAIC's investment advisory firm to carefully review plan performance in relation to underlying plan assumptions.

(2) Employee health benefits are based on the number of employees enrolled and their benefit selections. The NAIC moved to a self-insured plan in 2017 generating significant savings. As with any self-insured plan, actual cost varies annually based on employee claims. The 2021 budget for health insurance expense assumes (1) claims remain relatively consistent with the prior year; (2) an increase in the cost of stop loss coverage; and (3) a \$900 Health Savings Account (HSA) contribution for approximately 300 employees who have elected this benefit. 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. Projected expense for 2020 is based on actual claims through mid-2020 and prior year experiences.

(3) Employee relations includes (1) service awards; (2) performance recognition programs; (3) incidental employee functions such as Employee Appreciation Day, NAIC 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. The 2021 budget incorporates new Diversity, Equity, and Inclusion (DE&I) initiatives and recognizes the need to increase employee engagement efforts as the COVID-19 pandemic continues.

BUDGET ITEM: Employee Development

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$35,373	\$34,526	\$49,583	\$46,462	\$89,108	\$42,646	91.8%
Professional Training (2)	693,470	244,763	575,849	674,713	720,162	45,449	6.7%
Professional Association Dues-Staff (3)	78,223	45,576	86,691	83,016	96,144	13,128	15.8%
Total	\$807,066	\$324,865	\$712,123	\$804,191	\$905,414	\$101,223	12.6%

- (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 2021 budget demonstrates the NAIC's continued commitment to the development of employee skills to further the work of state regulation and the NAIC.
- (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 (1) cybersecurity; (2) management; and (3) leadership. The under budget spending in 2020 is the result of staff working remotely for much of the year due to COVID-19. The 2021 budget demonstrates the continued need for specialized training in several areas, including cloud computing, development of the new NAIC Talent Management Division and DE&I initiatives.
- (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. The increase in 2021 is due to an increase in DE&I memberships.

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	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Legal (1)	\$191,553	\$45,341	\$198,353	\$400,000	\$300,000	(\$100,000)	-25.0%
Accreditation Team (2)	1,101,003	467,781	910,051	1,132,210	1,083,100	(49,110)	-4.3%
Royalties (3)	2,452,893	101,619	1,854,814	1,872,575	1,787,316	(85,259)	-4.6%
Benefits (4)	268,288	118,329	258,677	252,144	204,573	(47,571)	-18.9%
Audit (5)	367,844	174,335	373,548	409,048	378,251	(30,797)	-7.5%
Consumer Awareness (6)	229,412	177,912	622,914	635,000	563,500	(71,500)	-11.3%
Implementation/Upgrade (7)	6,185,554	3,388,681	7,305,483	8,129,897	5,593,118	(2,536,779)	-31.2%
Data Modeling (8)	2,950,000		2,950,000	2,950,000	2,950,000		0.0%
Other Professional Services (9)	1,712,766	1,346,620	2,666,180	1,721,123	2,249,203	528,080	30.7%
Total	\$15,459,313	\$5,820,618	\$17,140,020	\$17,501,997	\$15,109,061	(\$2,392,936)	-13.7%

- (1) The outside legal counsel budget reflects anticipated legal expenses to assist the Legal Division in (1) needed expertise to assist in complex and specialized regulatory issues and projects; (2) labor and employment issues; (3) corporate matters relating to contracts, tax, and benefits; and (4) amicus briefs filed at the request of NAIC members. The 2021 budget reduction is to more closely align the budget with historical spending.
- (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 2021 budget assumes 10 states undergoing full reviews and 11 states undergoing pre-reviews, both consistent with 2020; and five re-reviews, an increase of two over 2020. 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. Examinations during the majority of 2020 were conducted virtually due to limitations on travel and face-to-face meetings as a result of the COVID-19 pandemic. This arrangement is anticipated to continue through the first trimester of 2021.
- (3) Royalties are paid to (1) financial modelers based on CMBS and/or RMBS dataset sales to third parties (\$1,742,500); and (2) the sale of NAIC products that leverage third-party technology and proprietary data (\$44,800). Revenue for 2021 from the sale of CMBS and RMBS modeled securities datasets, and thus royalties, is expected to decline slightly.
- (4) Consulting and support services in the benefits category include assistance with (1) administration of the Defined Contribution Retirement Plan and Defined Benefit Retirement Plan; (2) actuarial services for the Defined Benefit Retirement Plan; (3) benefit renewals; and (4) employee wellness plans. Administration fees for the advisory firm for pharmacy plans is expected to decline in 2021.
- (5) Audit fees include amounts paid to independent accounting, accrediting, and information technology firms for (1) annual financial examination (\$41,800); (2) Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization (SOC) engagements, including SOC 1 and SOC 2 audits (\$180,000); and cybersecurity audits (\$156,000). The operating reserve policy audit, budgeted at \$35,000 in 2020, has been delayed due to reassignment of resources to other implementations.
- (6) The 2021 budget for consumer awareness contains \$450,000 in public relations consulting services to support the NAIC's core consumer awareness and education media campaign. It also includes \$113,500 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. The 2021 budget recognizes efficiencies gained in this area while maintaining the same level of service.

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 2021 budget includes (1) \$527,750 for cloud computing support; (2) \$150,000 to upgrade the web platform; (3) \$95,000 for further work on the Market Analysis Review Systems (MARS) Redesign; (4) \$778,980 in staff augmentation and guidance as the NAIC continues work on several high-profile implementations; (6) \$269,700 for process improvements and automation to NAIC back-office systems; (5) \$344,150 for security related implementations; (6) \$357,000 for enhancements to the system used by the Capital Markets and Analysis Division; and (7) \$816,700 for continued work on 2020 projects in 2021 delayed as a result of COVID-19 (RDC \$173,400; Financial Data Delivery \$177,000; Financial Analysis Tools Redesign \$198,900; and UCAA \$267,400). The 2021 budget also includes consulting dollars for Fiscal Impacts 1 through 4 - Artificial Intelligence and Machine Learning for Financial Analysis (\$150,000); Enterprise Data Asset Management (\$1,400,000); MCAS/FDR Separation (\$266,000); and SERFF Plan Management Enhancements (\$291,800). The under budget variance in 2020 is driven by hiring delays for consultants for the several major projects due to COVID-19. The budgeted reduction in 2021 is due to the completion of several major projects during 2020, including the transition of systems to the Cloud (\$2,813,300) and the transition of existing jurisdictions to the updated SBS system (\$1,711,600). These reductions are partially offset by the carry over of budget dollars for initiatives not completed in 2020 and new fiscal projects for 2021.
- (8) Data modeling service fees are fees paid for the modeling of CMBS and RMBS securities owned by insurers and is based on the most current contract.
- (9) Other professional services include (1) \$61,200 for the NAIC's commercial insurance brokerage fees; (2) \$177,300 for expenses related to registration software license fees, transportation, facilities, speakers, and photographers for National Meetings, NAIC Events, and Interim Meetings; (3) \$103,000 in banking fees; (4) \$254,000 in fees for the administration, lease, and oversight of the co-location facility and services; (5) \$267,000 in cloud management services; (6) \$106,000 in news and video production services; (7) \$66,000 for cybersecurity services; (8) \$93,000 for technology information subscriptions; (9) \$112,000 in consulting services for the NAIC's DE&I and leadership programs; (10) \$445,000 for data analysis; (11) \$450,000 in staff augmentation services to fill temporary vacancies in critical but difficult to fill positions; and (12) \$115,250 for various outside services used throughout the association. The 2020 over budget projection in other professional services is due primarily to the use of consultants for hire in hard to fill positions within the SBS and Platform Services areas. The increase in this expense line in 2021 is related to continuation of consultant for hire arrangements and the addition of \$385,000 to expand data analysis conducted by the CIPR area 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	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Database Network (1)	\$564,368	\$277,285	\$550,285	\$894,398	\$800,569	(\$93,829)	-10.5%
Cloud Services (2)	1,033,024	542,813	1,227,293	1,730,799	1,255,196	(475,603)	-27.5%
Securities Valuation Services (3)	2,201,153	1,202,536	2,426,892	2,403,990	2,540,747	136,757	5.7%
Credit Card Fees (4)	388,840	171,977	351,283	382,993	390,167	7,174	1.9%
Other (5)	501,058	159,058	339,517	352,949	371,213	18,264	5.2%
Total	\$4,688,443	\$2,353,668	\$4,895,269	\$5,765,128	\$5,357,891	(\$407,237)	-7.1%

- (1) Database Network expenses budgeted in 2021 include (1) Internet connectivity (\$122,450); (2) New York and Washington, D.C. office circuits and backups to the Kansas City office (\$110,900); (3) wireless devices (\$104,130); (4) data line circuits for data replication and network synchronization between the NAIC's co-location site and all three NAIC offices (\$209,100); and (5) \$253,950 for wireless network and Wi-Fi services at national meetings, NAIC events, and interim meetings. The 2021 projection includes savings related to the cancellation of in-person events scheduled. The decrease in 2021 is directly related to the elimination of the budget for the IAIS Committee Meeting & Global Seminar and a decrease in expense related to conversion to cloud computing.
- (2) The NAIC undertook an initiative in mid-2017 to begin the transition to cloud computing to enable the association to quickly provision new capabilities, increase agility, and increase the speed of products to market. In order to closely monitor run costs related to this initiative, service costs are tracked separately from infrastructure costs. The 2020 expense for cloud services represents conversions of systems to the Cloud in phases I through IV. The under budget variance is due to prudent management of run cycles for cloud applications. The 2021 budget includes the continued service cost for applications transitioned through 2019 and a full year of costs for applications transitioned in 2020.
- (3) Securities Valuation Services represent the purchase of 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 SVO designations for NRSRO-rated securities, including municipal bond pricing, corporate bond pricing, Bloomberg, and Moody's. The 2021 budget includes annual increases across all platforms.
- (4) Credit card fees include charges from vendors and banks to settle NAIC customer credit card transactions and deposit funds in the NAIC bank account. The under budget performance in 2020 relates to cancellation of the Spring National Meeting and reduced number of SBS transactions. The slight increase in budget for 2021 assumes an increase in payment of invoices via credit card.
- (5) Other computer services included in the 2021 budget represent: (1) fees for services used for the online learning platform (\$187,740); (2) fees for processing online registrations for national meetings and other NAIC events (\$19,400) and education programs (\$17,580); (3) fees for powering the national meeting and Insurance Summit mobile agenda application (\$23,450); (4) employee-based services (\$51,400); (5) technology to scan attendee badges for professional education reporting (\$8,775); (6) library catalog service fees (\$37,900); and (7) membership services software fees (\$11,000). The increase in the budget for 2021 is related to an increase in services used for the online learning platform.

BUDGET ITEM: Travel

Item Description: Includes airfare, lodging, meals, and incidental travel expenses incurred by the NAIC staff, Commissioners, regulators, funded consumer representatives, state legislators, and international fellows. The sales and marketing expense line includes registration and incidental fees charged by organizations for participation in their trade shows as well as travel cost for NAIC staff members to the selected trade show sites.

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$1,593,153	\$183,977	\$423,708	\$1,778,118	\$1,601,065	(\$177,054)	-10.0%
Non-Staff/Non-Regulator Travel (2)	90,369	7,518	94,418	143,300	147,686	4,386	3.1%
Sales and Marketing Travel (3)	102,829	10,476	14,340	99,899	112,228	12,329	12.3%
Commissioner/Regulator Travel (4)	2,058,175	189,448	243,640	2,051,678	2,029,681	(21,997)	-1.1%
International Travel (5)	1,013,181	112,408	127,576	1,001,197	831,152	(170,045)	-17.0%
Regulatory Disaster Assistance Travel (6)	1,924		50,000	50,000	50,000		0.0%
Consumer Funding (7)	129,041	3,628	3,628	140,000	140,370	370	0.3%
Total	\$4,988,672	\$507,454	\$957,310	\$5,264,192	\$4,912,182	(\$352,011)	-6.7%

In response to the COVID-19 pandemic most in-person meetings were cancelled, including the 2020 Spring National Meeting, and others were converted to a virtual platform, including the 2020 Summer and Fall National Meetings. The cancellation of NAIC meetings and meetings by other organizations, as well as shelter-in-place and quarantine orders greatly reduced domestic and international travel during 2020. The 2021 budget assumes the return of in-person meetings will occur faster on the domestic front than the international.

- (1) Staff travel includes (1) travel to NAIC national meetings for committee staff support; (2) interim committee meetings; (3) state visits; and (4) travel to professional seminars and training programs. The reduced budget in 2021 anticipates a continued reliance on virtual meetings due to the efficiencies experienced during 2020.
- (2) The 2021 budget for non-staff/non-regulator travel includes (1) \$84,000 for travel expenses for state legislators to attend a 2021 NAIC National Meeting; (2) \$40,100 for travel and miscellaneous expenses for international regulators sponsored as part of the NAIC International Fellows Program; and (3) \$13,400 for speaker travel for CIPR programs and receptions at NAIC National Meetings.
- (3) Sales and marketing travel represents travel and trade show expenses related to marketing of SERFF, OPT^{ins}, SBS, and NAIC education and training programs. The 2021 budget for this line anticipates a higher level of interest in SBS, generating more marketing travel.
- (4) Commissioner travel includes (1) \$340,000 in domestic travel for Commissioners and senior regulators to participate in such events as Congressional testimony, trade association meetings, speaking engagements, and conferences, all for the purpose of conducting NAIC business; (2) \$600,000 to sponsor Commissioner and senior regulator travel to all 2021 NAIC national meetings; (3) \$142,100 to fund Commissioner travel to the annual Commissioners Conference held for strategic planning purposes at the beginning of each year; (4) \$19,200 to host travel to Valuation of Securities (VOS) Task Force meetings at NAIC offices; (5) \$34,250 for travel associated with support of the Financial Analysis (E) Working Group (FAWG); (6) \$506,000 to fund regulator travel to the NAIC Insurance Summit; (7) \$27,200 for Commissioner travel to the annual Committee Assignment Meeting; (8) \$190,100 to fund Commissioner travel to the Commissioners Fly-In, Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable, and International Insurance Forum; (9) \$12,000 for travel associated with support of the Market Actions (D) Working Group (MAWG); (10) \$91,300 for regulator travel for Peer Review examinations; and (11) \$67,500 for various other regulatory events such as financial regulatory training and cyber security tabletop exercises. The 2021 budget reduction is related to the elimination of the 2020 budget for the IAIS Committee Meeting & Global Seminar (\$29,600).

BUDGET ITEM: Travel (continued)

- (5) International travel includes \$405,000 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 2021 budget recognizes a continued decline in spending in this area and anticipates NAIC staff participation in fewer in-person meetings as some meetings will also be held virtually.
- (6) Projected 2020 expense for Regulatory Disaster Assistance travel represents NAIC's commitment to fund volunteer regulators to assist following devastating disasters should they occur during the remainder of the year. The 2021 budget of \$50,000 is to ensure needs of this nature will be met, should they arise, in the coming year.
- (7) The consumer funding budget is allocated for the NAIC's funded consumer representatives to attend national meetings, participate in NAIC conference calls, and pay for the NAIC Consumer Board of Trustees luncheon. The 2021 budget includes domestic travel of \$120,000 and international travel of \$20,370. This budget includes the same number of travelers and events as the 2020 budget.

BUDGET ITEM: Occupancy and Rental

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Rent (1)	\$2,789,492	\$1,386,412	\$2,766,898	\$2,787,760	\$2,803,416	\$15,656	0.6%
Utilities and Parking (2)	986,672	583,264	1,223,280	1,185,247	1,253,819	68,572	5.8%
Warehouse	25,063	9,510	17,714	20,085	21,641	1,556	7.7%
Equipment Rental and Maintenance (3)	678,797	292,394	550,621	546,680	563,285	16,605	3.0%
National Meeting Equipment Rental (4)	7,202			21,555	43,576	22,021	102.2%
Total	\$4,487,226	\$2,271,579	\$4,558,513	\$4,561,327	\$4,685,737	\$124,410	2.7%

In accordance with Generally Accepted Accounting Principles (GAAP), the total cost of each lease is recorded as expense evenly throughout the life of the lease. The annual budget for rent expense is derived by calculating the total cost of the lease, including scheduled increases in rental payments and incentive allowances, and dividing by the number of years covered by the lease.

- (1) Rent expense for the Central Office in Kansas City, MO at Town Pavilion is \$201,906 monthly for 146,283 rentable square feet (\$16.56 per square foot per year), with a lease expiration of January 31, 2024. The lease at Town Pavilion also includes incentive allowances reimbursed to the NAIC for leasehold improvements, furniture and equipment, and base rent differential. GAAP requires leasehold incentive allowances to be recorded on the balance sheet and amortized against rent expense over the life of the lease (12 years). This incentive allowance reduces base rent by \$100,114 per month.

Rent expense for the Executive Office in Washington, D.C. in the Hall of the States is \$64,723 monthly for 11,512 rentable square feet (\$67.47 per square foot per year), with a lease expiration of January 31, 2024.

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

The increase in the budget for 2021 is related to an anticipated increase in common area maintenance costs.

- (2) The increase in expense in 2020 and 2021 is primarily related to additional cleaning services needed as a result of COVID-19.
- (3) Equipment rental includes the cost to rent and/or maintain copiers for the NAIC copy centers, certain computer equipment, leased software, and other business operational equipment. Projected expense for 2020 and the 2021 budget include maintenance fees for thermal temperature sensing systems installed in the three NAIC office locations in mid-2020.
- (4) With the cancellation of the Spring National Meeting and the conversion of the Summer National Meeting to virtual these costs were not incurred. The 2021 Summer and Fall National Meetings will require the rental of additional equipment.

BUDGET ITEM: Computer Hardware and Software Maintenance

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Hardware Maintenance (1)	\$292,601	\$213,496	\$424,669	\$477,944	\$401,758	(\$76,186)	-15.9%
Software Maintenance (2)	5,018,854	2,738,723	5,421,549	5,555,264	5,966,076	410,812	7.4%
Total	\$5,311,455	\$2,952,219	\$5,846,218	\$6,033,208	\$6,367,834	\$334,626	5.5%

The NAIC secures maintenance and service agreements on hardware, software, and equipment that have exceeded the initial warranty period when the cost and risk of failure exceeds the cost of the service agreement. Examples of such include computer hardware (e.g., storage arrays and servers) and support agreements for heavily used software products.

- (1) As part of NAIC's State Ahead strategic plan, a multi-year transition to the Cloud began in mid-2017. The cloud platform allows the NAIC to (1) expand the tools offered to the membership and its constituents; (2) reduce the cost of data processing and storage; (3) increase the level and timeliness of analysis; (4) allow for experimentation of new products and services without significant financial investment; and (5) make the organization more nimble, enabling more frequent and faster delivery of products. The 2017 and 2018 phases provided the strategy, technical environments, security, governance, operating processes, tools, and training to prepare the organization for migrating and securely supporting applications in the Cloud. The focus in 2019 and 2020 was on migration of systems from the on-premise environment to the Cloud. As systems were being transitioned it was necessary to support the system in both environments. These duplicative hardware costs slowly started to be eliminated in 2020 with most applications transitioned to the Cloud by the end of the year. This elimination of hardware costs will continue into 2021. The NAIC has also experienced a decrease in capital investment for hardware to support the on-premise environment.
- (2) The under budget variance in 2020 is the result of a favorable purchase rate on a new software maintenance contract as well as the reassessment of the service level on several agreements. The 2021 budget incorporates these savings but includes increases for (1) additional licenses (\$266,200); (2) a full year of maintenance on software for systems migrations from the NAIC's data center to the Cloud during 2020 (\$332,250); and (3) software upgrades (\$219,400). These increases are partially offset by a reduction in license fees for software that is no longer needed due to the transition to the Cloud (\$325,000) and reduction in service level agreements (\$80,000).

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation and amortization for all capital assets owned as of June 30, 2020, with projected purchases through December 31, 2020, and depreciation and amortization for budgeted 2021 capital outlays.

<u>Description</u>	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$1,432,255	\$691,901	\$1,404,116	\$1,477,794	\$1,611,606	\$133,812	9.1%
Amortization (2)	2,609,910	1,335,155	2,660,777	2,662,793	2,633,772	(29,021)	-1.1%
Total	<u>\$4,042,165</u>	<u>\$2,027,056</u>	<u>\$4,064,893</u>	<u>\$4,140,587</u>	<u>\$4,245,378</u>	<u>\$104,791</u>	2.5%

- (1) Depreciation is calculated on a straight-line basis over the useful life of capital assets owned by the NAIC, which is five years for furniture and equipment and three years for computer hardware and software. The amount of depreciation expense in a given year is related to the purchase of capital assets in the current and preceding years. Purchase and installation of budgeted assets in 2020 has been delayed until late in the year due to COVID-19. The 2021 budget includes a full year of depreciation on the purchase of assets during 2020.
- (2) Amortization is computed on a straight-line basis for capitalized assets such as leasehold improvements and consulting services on major computer application projects and system upgrades. The initial useful life of this class of assets is approximately 10 years, but are assigned to specific assets based on each asset's useful life. The slight reduction in expense in 2021 reflects a shift in priorities to converting existing systems to a cloud platform. Changing the platform for an existing system is expensed rather than capitalized as it does not increase the useful life of the system, nor does it change what the system is designed to do.

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

BUDGET ITEM: Depreciation and Amortization (continued)

	2021 Capital Budget	Depreciation Expense	2020 Capital Budget	2020 Capital Projection
Capital Requests:				
Furniture and Equipment	\$381,614		\$180,000	\$180,000
Computer Hardware	1,032,417		1,084,874	700,500
Computer Software	<u>81,250</u>		<u>154,690</u>	<u>135,336</u>
Total Capital Requests	<u>\$1,495,281</u>	\$342,582	<u>\$1,419,564</u>	<u>\$1,015,836</u>
Depreciation on Prior Year Purchases		<u>1,269,024</u>		
Total Depreciation		<u>\$1,611,606</u>		
Budget Requests:				
Leasehold Improvements				
Consulting				
Total Requests	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>
Amortization on Prior Year Expenditures		<u>\$2,633,772</u>		
Total Amortization		<u>\$2,633,772</u>		

2021 Capital Expenditures

Description	Furniture and Equipment			Computer Hardware			Computer Software		
	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Conference Room Audio-Visual Upgrades	1	\$366,300	\$366,300						
Cooling Unit, New York Office	1	\$15,314	15,314						
Fabric Interconnects Refresh				1	\$44,210	\$44,210			
Firewall Appliance Upgrade (i2600)				2	\$21,500	43,000			
Firewall Appliance Upgrade (i4600)				4	\$58,000	232,000			
FEX Switch Replacements				24	\$7,500	180,000			
Infoblox Appliances, District of Columbia and New York Offices				2	\$4,665	9,330			
Infoblox Appliances, Kansas City Office and Colocation				4	\$7,625	30,500			
Multi-Function Printer				2	\$4,000	8,000			
Network Monitoring				1	\$30,500	30,500			
Firewall Upgrade, District of Columbia and New York Offices				4	\$3,500	14,000			
SSO Wireless Upgrade				1	\$24,337	24,337			
VDI Hardware Refresh				5	\$19,000	95,000			
VDI Storage Replacement, Kansas City Office and Colocation				2	\$72,000	144,000			
VM Series Firewall in AWS				4	\$12,885	51,540			
VSI Hardware Refresh				6	\$19,000	114,000			
Wireless Upgrade, District of Columbia and New York Offices				2	\$6,000	12,000			
Next Gen Transit Gateway							1	\$78,750	\$78,750
Cobalt Strike							1	\$2,500	2,500
			<u>\$381,614</u>			<u>\$1,032,417</u>			<u>\$81,250</u>

2021 Proposed Capital Expenditures Unit Cost \$25,000 or Greater

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

Useful Life

- **Conference Room Audio-Visual Upgrades (\$366,300)** – This purchase will replace a portion of the seven-year-old audio-visual equipment in conference rooms in the Kansas City office.
- **Fabric Interconnects Refresh (\$44,210)** – Replacement of the fabric interconnects, which are used for virtual desktop and server connectivity.

Technology Trend

- **Firewall Appliance Upgrade (\$232,000)** – New technology will be purchased to provide continued protection.
- **Network Monitoring (\$30,500)** – This purchase will add visibility for network troubleshooting in the VMware (virtual desktop) environment.
- **Next Gen Transit Gateway (\$78,750)** – Software addition to allow for east-west segmentation, visibility, and troubleshooting.
- **VDI Hardware Storage (\$144,000)** – The storage arrays which support the virtual desktop environment in Kansas City and Colocation are due for replacement with newer technology to ensure hardware outages are not due to aging hardware.

BUDGET ITEM: Operational

Item Description: Includes operational expenses for the NAIC offices.

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Insurance (1)	\$396,457	\$199,649	\$388,838	\$416,396	\$424,024	\$7,628	1.8%
Telephone (2)	367,150	196,749	356,205	373,626	253,300	(120,327)	-32.2%
Supplies (3)	293,046	94,167	232,224	321,419	332,684	11,265	3.5%
Non-Capital Equipment (4)	633,026	165,133	486,946	507,376	498,836	(8,540)	-1.7%
Mail Services (5)	175,057	44,493	82,820	171,462	142,403	(29,058)	-16.9%
	<u>\$1,864,736</u>	<u>\$700,191</u>	<u>\$1,547,033</u>	<u>\$1,790,279</u>	<u>\$1,651,247</u>	<u>(\$139,032)</u>	-7.8%

- (1) The negotiation of insurance premiums at the May 2020 renewal date, while maintaining consistent coverage, was very competitive which resulted in savings. The 2021 budget includes an increase of low double digits over existing premiums for the May 2021 renewals.
- (2) The decrease in projected telephone expense for 2020 is related to a reduction in the number of hosted conference calls by an outside service. As regulators and the NAIC transitioned to a remote work environment as a result of the pandemic, the NAIC converted from hosted conference calls to virtual meetings. The new virtual meeting platform has allowed for the continuation of committee and working group meetings, as well as provided the NAIC staff the ability to collaborate at a much lower cost. The 2021 budget assumes the combination of virtual meetings and hosted conference calls to conduct regulatory and staff meetings.
- (3) Supplies include purchases of copy paper; common area supplies; and miscellaneous office supplies for staff, interns, consultants, and temporaries at all NAIC offices. The decrease in 2020 is related to a decrease in the use of these supplies as a result of a remote work environment for the majority of the year, partially offset by the cost to establish a safe work environment (hand sanitizer, masks, etc.) with the NAIC's Phase 1 office reopening in July. The 2021 budget assumes a return to on-site work, and thus the increased consumption of office supplies, and includes additional costs to maintain the NAIC office space as a safe work environment.
- (4) Non-capital equipment purchases include minor software upgrades and purchases as well as minor office equipment and computer supplies needed to furnish staff members with the tools necessary to complete their assigned tasks. Several purchases planned for 2020 will not be made due to the remote work environment. These savings are partially offset by unplanned purchases necessary to supply NAIC staff with the tools necessary to function in a remote work environment, as well as additional costs to equip the three NAIC offices with equipment necessary to maintain a safe work environment (e.g., temperature sensors). The 2021 budget assumes a return to on-site work and the continued costs to maintain a safe work environment.
- (5) Mail services includes the cost of shipping (1) printed publications for order fulfillment and (2) equipment and materials to NAIC national meetings and other events. The significant decrease in 2020 is related to the shift to electronic delivery of publication products and the remote work environment. These savings will continue in 2021.

BUDGET ITEM: Library Reference Materials

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Library Reference Materials (1)	\$334,441	\$155,233	\$317,233	\$332,487	\$336,213	\$3,726	1.1%

(1) Library reference materials include reference 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.

BUDGET ITEM: Printing and Production

Item Description: Costs incurred for printing books, subscription updates, marketing materials, and other publications.

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Publications (1)	\$80,330	\$7,773	\$54,603	\$64,022	\$43,363	(\$20,659)	-32.3%
Outside Printing (2)	761		3,000	7,000	9,750	2,750	39.3%
Total	<u>\$81,091</u>	<u>\$7,773</u>	<u>\$57,603</u>	<u>\$71,022</u>	<u>\$53,113</u>	<u>(\$17,909)</u>	-25.2%

(1) Publications printing expense represents the cost of all publication inventory items sold, including the cost of special paper and other supplies used to produce a publication, external printing and binding services, and obsolete inventory adjustments. The 2020 projection and 2021 budget reflects a shift to electronic delivery of products.

(2) The 2020 projection reflects a decrease in printing due to a remote work environment. The 2021 budget anticipates a slight increase in the use of outside facilities to execute print jobs that cannot be accommodated by the NAIC's in-house copy center.

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings

Item Description: Outside costs directly related to conducting NAIC National Meetings; Commissioners Conference; All Commissioner DC Fly-In; Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable; interim, and committee meetings; Insurance Summit; International Insurance Forum; and IAIS Committee Meeting & Global Seminar (budgeted in 2020) not classified within other budget categories.

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$300,855		\$11,475	\$323,016	\$319,406	(\$3,610)	-1.1%
Hotel Services (2)	1,838,049	\$264,557	264,557	1,963,189	1,816,695	(146,494)	-7.5%
Reproductions (3)	95,499	21,236	43,998	97,225	97,512	287	0.3%
Audio-Visual Services (4)	990,337	86,633	438,233	1,191,224	1,038,577	(152,648)	-12.8%
Interim Meetings (5)	473,677	18,996	92,742	558,830	501,332	(57,498)	-10.3%
Total	<u>\$3,698,417</u>	<u>\$391,421</u>	<u>\$851,004</u>	<u>\$4,133,484</u>	<u>\$3,773,522</u>	<u>(\$359,962)</u>	-8.7%

In response to the COVID-19 pandemic the 2020 Spring National Meeting was cancelled and the Summer and Fall National Meetings were converted to a virtual format. Costs related to the production of a national meeting on a virtual platform are much less than an in-person meeting. The 2021 budget for National Meetings assumes the return to an in-person format.

The 2020 budget for these categories include costs for the IAIS Committee Meeting & Global Seminar which was to be hosted by the NAIC in Seattle, WA in 2020. This meeting was cancelled due to COVID-19. Members of the IAIS voluntarily host events in support of the organization. The last event hosted by the NAIC was the IAIS 2012 Annual Conference. The one-time costs related to the IAIS event are identified in the information below.

Year	Spring	Summer	Fall
2021	Dallas	Columbus	San Diego
2020	Phoenix	Minneapolis	Indianapolis
2019	Orlando	New York	Austin

- (1) Reception expenses reflect the cost of food and beverage services and service charges for the NAIC's welcome reception at (1) national meetings; (2) Commissioners Conference; (3) All Commissioner DC Fly-In; (4) Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable; and (5) Insurance Summit. The 2021 budget is based on quotes for food and beverage costs for selected meeting sites. The reduction in 2021 compared to the 2020 budget is related to the elimination of the reception for the IAIS Global Seminar, which was budgeted at \$32,850, partially offset by an increase in costs for receptions at the Spring and Fall National Meeting sites.
- (2) Hotel services include the cost of (1) technology support; (2) electrical support; (3) regulator and staff breakfasts, lunches, and breaks; (4) transportation; and (5) other hotel charges. The 2021 budget is based on quotes from host hotels and convention centers and expected number of attendees. The reduction in expense is related to the IAIS Committee Meeting & Global Seminar, which is not budgeted in 2021, reducing budgeted expense by \$196,570. This reduction is partially offset by an increase in costs based on the location of the Fall National Meeting.
- (3) The NAIC has negotiated copy service agreements for national meetings. The 2021 budget assumes a return to in-person meetings.
- (4) Audio-visual services include microphones, video equipment, electronic presentations, and labor costs associated with setup and operation of these services. Audio-visual costs for all three national meetings, as quoted by the service provider at the national meeting location, will decrease by approximately \$25,000. Additionally, audio-visual services for the IAIS meeting, budgeted at \$137,300, are not budgeted in 2021.

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings (continued)

- (5) The interim meeting budget represents costs associated with face-to-face meetings on key initiatives that are not otherwise classified within the NAIC's budget (e.g., Asia-Pacific Forum, IAIS meetings, CIPR programs and receptions). Interim meeting expenses include group meals, meeting room rental, and food and beverage. The number of CIPR programs and receptions has been reduced by one in 2021.

BUDGET ITEM: Education and Training

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Education Programs (1)	\$104,767	\$11,332	\$90,188	\$156,880	\$211,194	\$54,314	34.6%
Risk Assessment Training (2)	26,970	6,779	6,779	55,524	61,444	5,920	10.7%
Total	\$131,737	\$18,111	\$96,967	\$212,404	\$272,638	\$60,234	28.4%

- (1) The purpose of the Education and Training function within the NAIC is to manage the NAIC's regulatory curriculum. The core focus is on 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 2020 is due to the New Financial Regulators program being held virtually rather than as an on-site meeting. The increase in expense in 2021 is related to additional offerings in the Solvency Regulation and Compliance and Leadership and Professional Skills fields.
- (2) Risk Assessment Training expenses represent a national training program for regulators in states that have adopted the Risk Management and Own Risk and Solvency Assessment (RMORSA) Model Act. In 2020, the number of training events was reduced and the trainings were held virtually as a result of COVID-19. The 2021 budget assumes a return to in-person trainings.

BUDGET ITEM: Grant and Zone

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	\$1,053,301	\$43,681	\$553,077	\$1,170,000	\$1,730,000	\$560,000	47.9%
Zone Funds (2)	12,108	500	6,000	12,000	9,000	(3,000)	-25.0%
Zone Technical Training (3)	143,927	24,084	51,210	217,730	305,020	87,290	40.1%
Zone Expenses (4)	300,579	11,438	33,688	277,000	365,052	88,052	31.8%
Total	<u>\$1,509,915</u>	<u>\$79,702</u>	<u>\$643,974</u>	<u>\$1,676,730</u>	<u>\$2,409,072</u>	<u>\$732,342</u>	43.7%

During the COVID-19 pandemic meetings were either cancelled or held virtually, eliminating the need to travel and dramatically reducing the use of grant and zone funds.

- (1) Grant funding of \$20,000 per member (\$1,120,000) in 2021 remains consistent with budgets since 2014. As a result of limited travel during 2020, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee extended the timeframe for the use of 2020 grant fund to December 31, 2021. This carry over is estimated to be \$560,000. An additional \$50,000 is budgeted to assist members with special funding needs during 2021. The 2021 budget assumes a return to in-person meetings and normal travel schedules.
- (2) Zone funds represent the utilization of the training dollars allocated to each member by the four Zones. Grant funding balances are used by members first as they do not carry forward to the following year. Zone fund balances are available until used by the member.
- (3) Zone Technical Training funds are used by NAIC Zones to fund technical training for the Zone as a whole. Funding is derived from the allocation of unused Grant funding for members within a particular Zone. The 2021 budget assumes a return to in-person training events by the Zones on a slightly increased pace.
- (4) NAIC allocates funding to NAIC Zones annually to fund activities of the Zones. These activities include Zone conferences, Zone meetings at national meetings, and funding of member training allocations (Zone Funds) in addition to NAIC Grant funds. NAIC funding includes (1) \$147,500 - \$2,500 per Zone member, with a minimum of \$35,000 per Zone, approved - June 2010 and (2) \$140,000 - \$2,500 per Zone members to be used by the Zones to provide additional training opportunities for their members, approved - December 2013. The 2021 budget assumes Zone events will resume at a level higher than prior years.

BUDGET ITEM: Other

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

Description	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Professional Association Dues - NAIC (1)	\$589,322	\$666,684	\$670,684	\$684,000	\$755,490	\$71,490	10.5%
Recruiting and Relocation (2)	321,700	225,916	362,516	372,842	353,370	(19,472)	-5.2%
Bad Debt Expense (3)	652,640	(75)	39,927	80,000	40,000	(40,000)	-50.0%
Member Relations (4)	9,333	11,262	11,262	3,800	3,800		0.0%
Total	<u>\$1,572,995</u>	<u>\$903,787</u>	<u>\$1,084,389</u>	<u>\$1,140,642</u>	<u>\$1,152,660</u>	<u>\$12,018</u>	1.1%

(1) Professional Association dues includes \$724,823 for the NAIC's annual membership in the IAIS, an increase of \$67,915 over the dues paid in 2020. The IAIS is expected to budget a 6.1% increase in dues for the NAIC in 2021, calculated in Swiss Francs. The NAIC bears the currency conversion rate risk on this membership fee. The conversion rate paid during the remittance of the 2020 dues was favorable. Additionally, this line includes association participation in local business organizations.

(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 2021 budget assumes a continued need for the use of recruiting agencies to identify individuals with the unique skill sets used by the NAIC in its many specialized areas.

(3) Bad debt expense is a provision for future uncollectible customer accounts receivable. The 2020 projection and 2021 budget reflect a trend toward fewer uncollectible accounts.

(4) The member relations account includes expenses associated with the Dineen Award recipient and recognition of NAIC Members and Officers.

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	2019 Actual	6/30/2020 Actual	12/31/2020 Projected	2020 Budget	2021 Budget	Increase (Decrease)	Percentage
Interest Income (1)	\$742,031	\$205,157	\$376,256	\$977,325	\$514,998	(\$462,327)	-47.3%
Dividend Income (2)	3,440,723	958,573	1,481,553	2,552,288	1,500,000	(1,052,288)	-41.2%
Realized Gain/(Loss) (3)	8,858,654	656,956	1,197,829				
Unrealized Gain/(Loss) (3)	5,339,320	(5,127,023)	180,527				
Investment Fees (4)	(350,315)	(107,578)	(224,412)	(376,541)	(255,180)	121,361	-32.2%
Total	\$18,030,413	(\$3,413,916)	\$3,011,752	\$3,153,072	\$1,759,818	(\$1,393,254)	-44.2%

The investment income includes (1) projected interest income on the long-term fixed income portfolio and short-term investments; (2) dividend income from the equity portfolio; (3) realized and unrealized gains and losses; partially offset by (4) investment advisory fees for the management of the NAIC long-term investment portfolio. NAIC used 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 under budget performance in 2020 and the reduced budget in 2021 are driven by the (1) current low interest rate environment; (2) liquidation of several interest generating holdings during a realignment of the portfolio in early 2020; and (3) the elimination of interest income on the note payable from the Interstate Insurance Product Regulation Commission (IIPRC).

IIPRC and the NAIC restructured the loan repayment by IIPRC in anticipation of the repayment trigger being achieved at the end of 2019. The restructure extended the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance of \$2,740,134. Payments will be made no later than March 31 of each year but may be extended by mutual agreement. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. If during the 10-year repayment period, IIPRC's cash balance is less than \$250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of \$712,733 will be treated as a contribution to IIPRC.

- (2) Dividend income is projected based on current and historical dividend receipts. The 2020 projection is expected to fall short of budget based on the current financial markets and mix of NAIC investments. Budgeted 2021 dividend income reflects a continuation of the current market trends.
- (3) Realized and unrealized gains or losses are not budgeted due to the volatility of financial markets. Realized gains as of August 31, 2020, were generated from the sale of existing financial holdings as part of the investment portfolio realignment. Through August 31, 2020, realized gains have increased nearly \$600,000, while unrealized gains improved by nearly \$4.2 million resulting in a net decrease in income of nearly \$550,000. Unrealized gain and loss adjustments to market value are required by Generally Accepted Accounting Principles (GAAP). Fluctuations in market gains and losses are expected during the remainder of 2020 and during 2021.
- (4) GAAP require 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 based on current market trends.

**2021 BUDGET
FISCAL IMPACT STATEMENTS**

Fiscal Impact Number	Description	2021 Budget			Net Impact 2021 Budget
		Capital Expenditures	Revenues	Expenses	
	Total Revenues Over/(Under) Expenses Before Fiscals and Investment Income	\$1,495,281	\$117,225,061	\$125,073,350	(\$7,848,289)
1	Artificial Intelligence and Machine Learning for Financial Analysis			150,000	(150,000)
2	Enterprise Data Asset Management			1,400,000	(1,400,000)
3	MCAS/FDR Separation			266,000	(266,000)
4	SERFF Plan Management Enhancements			291,800	(291,800)
	Total Fiscal Revenues Over/(Under) Expenses			2,107,800	(2,107,800)
	Investment Income		1,759,818		1,759,818
	Total Revenues Over/(Under) Expenses	\$1,495,281	\$118,984,879	\$127,181,150	(\$8,196,271)



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 20, 2020
NAME OF INITIATIVE:	ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING FOR FINANCIAL ANALYSIS
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	DAN DAVELINE, DIRECTOR, FINANCIAL REGULATORY SERVICES
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2021
ANTICIPATED COMPLETION DATE:	SEPTEMBER 30, 2021
TOTAL REVENUE EXPECTED (2021):	\$0
(2022):	\$0
TOTAL EXPENSE REQUESTED (2021):	\$150,000
(2022):	\$0
TOTAL CAPITAL REQUESTED (2021):	\$0
(2022):	\$0

I. Executive Summary:

The incorporation of Artificial Intelligence (AI) or machine learning into the Scoring System will enable solvency-monitoring regulators to make better decisions and take timely action to address solvency concerns, based on accurate modeling and assessment of the data collected. The improved tool will assist states in prioritizing their monitoring efforts and taking preventative action on companies trending towards insolvency.

The NAIC will contract with a technical specialist in AI and machine learning tools to develop one or more models that can accurately present the degree of solvency risk for life insurance companies based on historical company data, specifically that of troubled or failed companies. The model results and outputs would be compared against the NAIC’s existing Scoring System methodology to identify specific improvement recommendations for the Scoring System and to develop an ongoing review and maintenance process.

II. Key Deliverables:

The project will include a clear set of deliverables for the vendor relating to 1) model development and presentation of results; 2) identify improvements; and 3) develop ongoing maintenance processes. The

vendor will be expected to deliver based on an agreed-upon schedule, and regular status meetings will be held to ensure the schedule is met.

III. Financial and Organizational Impact:

The expected fee for these technical consulting services is \$150,000, based on vendor responses to a Request for Proposals (RFP) issued earlier this year (see **Attachment I**). In addition, 500 NAIC staff support hours are estimated to participate in and oversee the project.

The project will involve existing financial analysis staff to oversee the work of the vendor, support the data preparation process, and receive training on the model results and ongoing maintenance process. The training of staff in this area is expected to reduce future costs associated with maintaining the Scoring System enhancements as vendor services are not expected to be necessary to maintain and develop future enhancements.

IV. Risk Management Plan:

Risks associated with the project include challenges in developing a successful model, interpreting the model results, and incorporating changes to the Scoring System that could reduce its effectiveness or interpretability. To avoid these risks, the following steps are planned:

- NAIC staff making the selection decision will use a thorough vendor selection process that includes the understanding of insurer solvency risks and financial analysis tools as key selection criteria.
- NAIC staff will develop clear instructions for the selected vendor regarding project goals and the importance of model interpretability.
- Experienced senior staff and regulators will be asked to review the model results and proposed enhancements to the Scoring System.

V. Security Impact:

As the model(s) will be developed and run outside of NAIC systems, all security impacts are indirect. All insurance company data provided to the vendor for modeling purposes will be masked to remove any identifying information and preserve its confidentiality. In addition, the vendor contract will include appropriate clauses to ensure that all confidential and proprietary information is appropriately protected.

2021 Budget

**Artificial Intelligence and Machine Learning for Financial Analysis
Project Cost Analysis**

**Anticipated Start Date: January 2021
Anticipated Completion Date: September 2021**

Description	2021 Budget	2022 Budget	2023 Budget
Expenses:			
Professional Services-Consulting	\$150,000		
Total Expenses	150,000		
Revenues Over (Under) Expenses	(\$150,000)	\$0	\$0



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 20, 2020
NAME OF INITIATIVE:	ENTERPRISE DATA ASSET MANAGEMENT
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JEFF JOHNSTON, MANAGING DIRECTOR, FINANCIAL REGULATORY AFFAIRS TODD SELLS, DIRECTOR, FINANCIAL REGULATORY POLICY AND DATA
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2021
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2021
TOTAL REVENUE EXPECTED (2021):	\$0
(2022):	\$0
TOTAL EXPENSE REQUESTED (2021):	\$1,400,000
(2022):	\$0
TOTAL CAPITAL REQUESTED (2021):	\$0
(2022):	\$0

I. Executive Summary:

The NAIC serves to support its members in many ways but providing access to relevant data and tools used to parse, analyze, and present insights from the data are core functions. Direct data access and tools are currently provided not only to regulators but also to internal NAIC staff performing work to assist regulators. NAIC must keep pace with ongoing technology changes for users to make better use of the data and to provide tools to allow them to be more effective and efficient in their work. This is a fundamental theme in the *State Ahead* strategic initiatives.

The NAIC's current data environment is antiquated. It is difficult for users to access data from different databases, as they were all developed as silos. The technology currently used is not flexible, it does not scale easily or well, and it is resource-intensive to keep up with changing business needs, such as dashboarding and machine learning tools. To begin remedying these issues, the *State Ahead* strategic plan included two projects: Enterprise Data Platform – Phase I and Enterprise Data Governance – Phase I. These Phase I projects focused on identifying and designing the best structure for the Enterprise Data Platform, establishing key data governance and management processes, and implementing technology to support data management on the platform. Work to build the data platform using the Complaints Database System (CDS) and the Regulatory Information Retrieval System (RIRS) as pilot data sets is

underway. The data platform uses cloud technology, which will enable more rapid adoption of new technology. By the end of 2020, NAIC staff will provide dashboards pointing to CDS and RIRS data in the Cloud, allowing regulators to look up and sort data as desired and to download it in spreadsheet format. For states desiring bulk data downloading capabilities, the NAIC is piloting a cloud-native data warehouse to provide these capabilities in a flexible yet secure manner.

The Enterprise Data Asset Management project is the next phase in the NAIC data initiative. This project will leverage the work completed and lessons learned during the Phase I projects to continue to build platform architecture. In addition to financial and market regulatory data sets currently available to regulators, data currently unavailable for analysis and download will be loaded to the platform. Data governance will be expanded to include data quality, and tools will be implemented to increase NAIC's ability to make bulk data available to regulators in a timely, cost-effective, and secure manner. Technology will be identified, selected, and implemented to enable more state regulators and NAIC business users to query and manipulate data, perform automated analysis, and create dashboards without relying on technical resources. Upon completion of this project, the initiative will have addressed the pitfalls of the current antiquated data environment, modernized using cloud technologies to empower data users, and established an architecture that can continue to evolve as technology advances.

II. Key Deliverables:

The key deliverables used to measure the success of this initiative include:

- Implement standards, procedures, and best practices (such as data formatting standards) for data management on the platform to facilitate easy data access and efficient data work.
- Build out the following architecture, technology, and processes on the data platform:
 - Develop processes to onboard data from the production data store to the platform.
 - Develop processes to update the data stored on the platform with the additions/modifications made in the production data stores.
 - Establish a raw data layer to store data assets in their original format.
 - Apply basic data standardization to data to ensure key data elements (such as Company Code/Cocode) are stored using a consistent format.
 - Establish an exploration data layer to be used for data queries, design research and development, machine learning, and analytics.
 - Create a business data layer with highly structured, business-ready data for use in NAIC tools, standard reporting, visualizations, and bulk data access.
 - Establish a secure and flexible option for bulk data access to provide regulators the ability to select and download data for their own research and analysis.
- Establish a data quality framework to improve accuracy of data (e.g., incorrect addresses or data classifications) and facilitate machine learning and artificial intelligence.
- Prioritize financial and market regulation data assets to be loaded to the Enterprise Data Platform. Upon completion of this project, other data assets will be prioritized and added to the platform as part of ongoing internal operations.
- Explore mechanisms to provide access to business definitions and/or labels for financial and market regulatory data to state users and internal staff.
- Create documentation and instructional materials for technical and business users covering all features of the data platform.

III. Financial and Organizational Impact:

Initial work on the project will begin in September 2020 and will utilize existing budgeted funds. For the tools and resources needed in 2021, this fiscal requests \$1,400,000 in funding to be utilized for computing costs, software, implementation consulting, and training (See **Attachment I**). This project will require

in-depth analysis prior to the selection of the tools, consulting, and training needed. As a result, the amount of funding needed for the project will be allocated to a pool fund with oversight by the NAIC's Enterprise Project Management Office (EPMO). EPMO members comprise NAIC's senior leadership, including the NAIC's Chief Operating Officer/Chief Legal Officer, Chief Technology Officer, and Chief Financial Officer. As expense items are determined, requests will be made to the EPMO for approval. If approved, funds will be allocated from the pool to the project.

IV. Risk Management Plan:

Inherent with the implementation and adoption of new technology, the following risks have been identified:

- NAIC staff are learning more about data quality methodology and how best to improve the consistency of its documentation on data quality rules for key data sets. Documenting data quality rules for priority data sets prior to the vendor selection process for data quality software and implementation consulting will be a key endeavor to ensure requirements are understood.
- Some regulators will need to merge NAIC data with their own state data. The team will provide options for regulators to download and blend data from different sources via a variety of formats or data pull from the NAIC cloud data warehouse to the states' data warehouse and applications.
- States may need to develop new or modify existing internal processes to integrate and utilize the new technology on the platform.
- New or changing data set priorities may impact the need for additional internal resources for data modeling, ingestion, and management. Should this occur, the team will work with business partners to reprioritize data sets and engage other internal resources to increase capacity if necessary.

V. Security Impact:

Personally Identifiable Information (PII) and other sensitive data will be loaded to the data platform and managed through the data governance program established as part of the Enterprise Data Strategy, Governance, and Management project. The 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 quickly and easily identify all data assets and asset attributes such as the existence of PII data elements and confidentiality requirements.

- Data will contain PII data from a number of NAIC systems. Masked data from the lower realms in production will be used to load the lower realms in the Data Platform.
- PDF attachments included in financial and market regulation data will be loaded to the Data Platform.
- States will not have access to data stored in the raw data layer of the platform. Data stored in the business data layer will be available for access by the states for bulk download via Tableau dashboards or other application/software such as a cloud data warehouse, a data preparation tool, and data query software. Access to the exploration data layer is not intended for direct access by state regulators as long as the business data layer meets the states' data needs.

2021 Budget

**Enterprise Data Asset Management
Project Cost Analysis**

**Anticipated Start Date: January 2021
Anticipated Completion Date: December 2021**

Description	2021 Budget	2022 Budget	2023 Budget
Expenses:			
EPMO Pool Funding Account	\$1,400,000		
Total Expenses	1,400,000		
Revenues Over (Under) Expenses	<u>(\$1,400,000)</u>	<u>\$0</u>	<u>\$0</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 20, 2020
NAME OF INITIATIVE:	MCAS/FDR SEPARATION
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	TIM MULLEN, DIRECTOR, MARKET REGULATION
REQUESTED INITIATIVE START DATE:	APRIL 1, 2021
ANTICIPATED COMPLETION DATE:	FEBRUARY 28, 2023
TOTAL REVENUE EXPECTED (2021):	\$0
(2022):	\$0
TOTAL EXPENSE REQUESTED (2021):	\$266,000
(2022):	\$134,000
TOTAL CAPITAL REQUESTED (2021):	\$0
(2022):	\$0

I. Executive Summary:

The NAIC Market Regulation Department uses the Financial Data Repository (FDR) tools to maintain and create data for calculations, ratios, rules, and other metadata needed to support the Market Conduct Annual Statement (MCAS) platform. The complexity of this reliance has grown beyond what was initially contemplated with the 2017 MCAS Redesign initiative, as filings have expanded from four lines of insurance in 2014 to nine lines of insurance in 2021. NAIC Members continually add new lines of business or revise existing lines of business each year, which will further increase complexity.

Each year, for each line of business, it is necessary to do the following:

- Update scorecard ratio formulas for a new line of business,
- Create metadata for MCAS database tables,
- Create and update back-end calculations for scorecard ratios and rankings,
- Create, update, and test MCAS filing validations, and
- Generate and post MCAS public scorecard ratios.

These tasks depend on shared access to the database across the MCAS and FDR systems. This fiscal proposes the creation of a series of web services that will allow MCAS to access the financial database directly for MCAS-required data. The web services will eliminate redundant work and greatly simplify the support effort needed by the NAIC Market Regulation and Information Technology Group (ITG) staff.

Once data has been entered into the financial database using FDR tools, the data must be migrated from the FDR platform to the MCAS platform for NAIC market regulation staff to validate the changes. This process takes up to six hours and requires staff from both the Financial Regulatory Policy and Data Department and ITG. With the web services, the migration process will be eliminated and NAIC Market Regulation staff will have the ability to update and validate calculations directly in MCAS.

Simplifying the collection of MCAS data is necessary to meet the needs of the NAIC Members. This project will allow MCAS to operate independently of FDR and reduce complexity and dependencies across multiple NAIC departments. Additionally, the project will allow NAIC staff resources to be reallocated to perform value-add services for NAIC Members.

II. Key Deliverables:

A series of new financial data web services will be created to allow the new version of the MCAS system to access the financial database for MCAS-required data. The current structure allows for a shared access to the database. This change will remove that dependency and will follow current IT architectural design patterns of data access and security.

To prepare for each MCAS filing year, the NAIC Market Regulation Team enters metadata to properly define the MCAS data call. The NAIC Market, Financial and Licensing Team then migrates this metadata across several data structures and databases to prepare it for production and the corresponding availability of the MCAS system for the collection of MCAS data from industry. This process must be repeated for each line of business.

Once the MCAS filing system is released to production, the current process collects MCAS data using the Regulatory Data Collection (RDC) system to initially validate the data. The data is then copied to the FDR database for additional validations, calculations of rankings and ratios, and long-term storage. Once MCAS data is collected and validated, and calculations are complete, the data needs to be moved to a data warehouse to allow access for reporting. The existing reports and dashboards will be updated to point to this new data warehouse.

The primary deliverable for this project is to enhance RDC to allow the creation and maintenance of MCAS metadata, thus removing the need to use FDR tools. The enhanced RDC will be delivered in Fall 2022 for the preparation of the MCAS system to collect 2022 MCAS data in 2023. This will allow NAIC market regulation staff to input and migrate these definitions from test environments to production and eliminate the migration of metadata across multiple data structures and databases.

III. Financial and Organizational Impact:

The effort and complexity of this project is expected to be similar to the *State Ahead* MCAS Redesign Project. The project is slated to begin in April 2021 and conclude in February 2023. Recognizing the need to support the 2022 MCAS filings through the existing process, this project will be coordinated with other NAIC priorities to properly manage NAIC resources and outside consultants to complete the project for the MCAS filing deadline for 2023. It is estimated this project will require 7,400 NAIC ITG staff hours and total consulting expenses of \$400,000 for one Software Engineer and one Software Quality Engineer as outlined in **Attachment I**. Consulting expenses will be divided across the first two years of the project, with \$266,000 expected for 2021 and \$134,000 for 2022.

The project will have a long-term, positive operational impact. The initiative is estimated to reduce the time spent maintaining the functionality of the MCAS system within existing processes by 20% for the Market Regulation Team. In ITG it will eliminate the need to allocate up to 10% of a developer's time to support MCAS data migrations and metadata setup in support of market regulation staff. In addition, ITG

will no longer need to allocate another 10% of a developer's time to support MCAS ratios and rankings calculations within the FDR platform. Finally, this project will reduce the need to allocate an additional 20-25% of a staff member to support the creation and testing of i-Site+ reports and yearly enhancements.

The completion of this project will allow market analysts in the Market Regulation Division to provide value-add market analysis services to state insurance regulators, including the following:

- Further development of market analysis Tableau dashboards, commentary, and reports;
- Development and implementation of practices, procedures, and policies for identifying, analyzing, and reporting on insurers and issues;
- Presentation of analysis findings to the Market Actions (D) Working Group (MAWG) on insurers considered trending toward a troubled state;
- Enhanced assistance to states in successfully performing market analysis and meeting the goals set forth by NAIC Members;
- The conduct of in-depth reviews of selected nationally significant insurers using the methodologies set forth in the NAIC's *Market Regulation Handbook*; and
- The performance of detailed market analysis on specific insurance companies and issues, as requested by NAIC Members.

IV. Risk Management Plan:

The main risk associated with this plan is the continuation of business during the development and testing. To ensure the NAIC will be able to continue to collect financial and market regulation data from the insurance industry during this project, the teams will devise a plan that allows staff to decouple the two systems while continuing to support yearly filings. Currently, staff works during the fourth quarter and the following year's first quarter to set up the system to receive filings for the year. The work needed to accomplish this initiative will be ordered in such a way to allow the work of preparing to collect filings to continue without interruption.

Although the work is anticipated to take around 18 months, the project itself will have a duration of 23 months. NAIC staff will need to transition resources during the middle of the process to complete annual MCAS work as needed during the fourth quarter of 2021 and the first quarter of 2022. The new process will be fully implemented for filings to be collected in early 2023.

V. Security Impact:

There will be little impact to the overall security of MCAS data in this project. The financial data will begin to be accessed via services instead of direct access to the databases, following industry standards of IT practices and procedures around security. MCAS and financial data are not classified as Personally Identifiable Information (PII). MCAS data and some financial data are classified as confidential data. All confidential data will continue to be secured as required by NAIC security policies.

2021 Budget

MCAS/FDR Separation
Project Cost AnalysisAnticipated Start Date: April 2021
Anticipated Completion Date: February 2023

Description	2021 Budget	2022 Budget	2023 Budget
Expenses:			
Professional Services-Implementations/Upgrades	\$266,000	\$134,000	
Total Expenses	266,000	134,000	
Revenues Over (Under) Expenses	(\$266,000)	(\$134,000)	\$0



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 20, 2020
NAME OF INITIATIVE:	SERFF PLAN MANAGEMENT ENHANCEMENTS
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 11, 2021
ANTICIPATED COMPLETION DATE:	DECEMBER 17, 2021
TOTAL REVENUE EXPECTED (2021):	\$0
TOTAL EXPENSE REQUESTED (2021):	\$291,800
TOTAL CAPITAL REQUESTED (2021):	\$0

I. Executive Summary:

The SERFF Plan Management Enhancements project includes two components to streamline processes supporting data collection related to the Patient Protection and Affordable Care Act.

The first component will replace two existing processes used to provide data to The Centers for Medicare and Medicaid Services (CMS) on behalf of state-based exchanges with a single process that leverages the existing plan transfer mechanism between SERFF and CMS. The resulting process will require less NAIC staff support and improve data quality for CMS.

The second component will build functionality to support the transfer of the CMS Unified Rate Review Template from SERFF to CMS. Today, insurance companies must submit the template, supporting documentation, and data in both SERFF and in the Health Insurance Oversight System used by CMS. This dual submission is inefficient and leads to possible data discrepancies between CMS and state insurance regulators.

II. Key Deliverables:

The following are the deliverables expected for the project:

- Successful and timely transfer of relevant plan data from state-based exchanges to CMS to meet financial management and public use file reporting requirements.

- Reduction of NAIC staff effort and code base supporting generation of Financial Management data reports and Public Use Files.
- Transfer of rate review templates and supporting documentation and data to CMS.
- Visibility for states and issuers into transfer content and status so that all stakeholders know what data is shared between the two systems and when, so updates to the data can be easily managed.
- Ability for NAIC staff to support the new processes by providing training and other materials to ensure a smooth transition without significantly increasing support calls.

III. Financial and Organizational Impact:

This project will require the assistance of professional consultants to augment staff hours, which is expected to be \$291,800. See **Attachment I** for more details.

IV. Risk Management Plan:

The key stakeholders to this project are CMS, state insurance regulators involved in plan management activities, and insurance companies submitting health insurance plans to be sold on the insurance exchange.

The key risk for CMS is that the features delivered do not transfer the correct data or the project is not delivered in time. To mitigate these risks, the project team will conduct integration testing with CMS and will leave existing processes in place until the new processes have been verified and are in production.

For state insurance regulators and insurance companies, the key risks are lack of understanding or participation with the new processes. This risk will be mitigated through communication and documentation of new features.

V. Security Impact:

This project builds onto existing SERFF capabilities and as such, should not introduce any security risks.

2021 Budget

SERFF Plan Management Enhancements
Project Cost AnalysisAnticipated Start Date: January 2021
Anticipated Completion Date: December 2021

Description	2021 Budget	2022 Budget	2023 Budget
Expenses:			
Professional Services-Implementations/Upgrades	\$291,800		
Total Expenses	291,800		
Revenues Over (Under) Expenses	(\$291,800)	\$0	\$0

**2021 BUDGET
UNRESTRICTED NET ASSETS (UNA)**

	Total UNA (1)	Regulatory Modernization Fund (2)	Available UNA
2015 Ending Balance	\$114,373,497	\$1,643,203	\$112,730,294
2016 Revenues Over/(Under) Expenses	4,964,045		
Defined Benefit Plan Adjustment (FAS 158) (3)	(75,067)		
2016 Ending Balance	119,262,475	\$1,785,657	\$117,476,818
2017 Revenues Over/(Under) Expenses	11,638,987		
Defined Benefit Plan Adjustment (FAS 158) (3)	2,904,688		
2017 Ending Balance	133,806,150	\$2,006,328	\$131,799,822
2018 Revenues Over/(Under) Expenses	(2,896,891)		
Defined Benefit Plan Adjustment (FAS 158) (3)	78,394		
2018 Ending Balance	130,987,653	\$1,842,346	\$129,145,307
2019 Revenues Over/(Under) Expenses	13,949,277		
Defined Benefit Plan Adjustment (FAS 158) (3)	4,472,258		
2019 Ending Balance	149,409,188	\$2,038,551	\$147,370,637
2020 Projected Revenues Over/(Under) Expenses	(590,639)		
2020 Projected Ending Balance	148,818,550	\$2,137,890	\$146,680,660
2021 Revenues Over/(Under) Expenses	(6,088,471)		
2021 Ending Balance Before Fiscal Impact Statements	142,730,078	\$2,140,951	\$140,589,127
2021 Fiscal Impact Statements	(2,107,800)		
2021 Ending Balance After Fiscal Impact Statements	\$140,622,278	\$2,109,334	\$138,512,944

UNRESTRICTED NET ASSETS

(1) On July 7, 2015, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved a report from an independent financial advisory firm which established the NAIC's liquid operating reserve target range of 83.4% to 108.2%. The operating reserve target is the result of current and future identified risks and benchmarking to comparable organizations.

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

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

The NAIC froze the Defined Benefit Plan to new entrants on January 1, 2000, and accrued benefits for all active employees were frozen as of December 31, 2012.

The SFAS 158 adjustment at December 31, 2016, increased the liability by \$509,974 and decreased net assets by \$75,067. These adjustments were the result of plan assumption updates partially offset by the portfolio's positive financial performance.

The plan experienced an overall decrease in obligation in 2017. The SFAS 158 adjustment decreased liabilities \$551,249 and increased net assets \$2.9 million primarily due to market performance and plan assumptions updates. Additionally, the NAIC Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years. The goal of this strategy is to be fully funded with no unrecognized expense by the end of 2021.

The defined benefit plan experienced an overall decrease in obligation in 2018. The SFAS 158 adjustments at December 31, 2018, decreased the liability \$3.9 million and increased net assets \$78,394. This decrease in plan obligations was driven by a \$5.1 million contribution to the plan and several plan assumption updates.

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