

2023 NAIC **Budget**

Adopted by NAIC Membership

DECEMBER 16, 2022



2023 NAIC BUDGET

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

Executive Summary

NAIC 2023 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 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.

For the past two and a half years, the NAIC has faced unprecedented challenges. The organization's strategic plan, *State Ahead*, has functioned as a compass to assist navigation through these challenges and to help realize the membership's vision for the future of state insurance regulation. In 2022, the membership began a vigorous review of the plan's initiatives and plans to roll out the new strategic plan, *State Connected*, which will build on the work completed in *State Ahead* and will position the NAIC as a "connected hub" for the membership. Ultimately, the goal is to better protect consumers in the quickly evolving marketplace of insurance, including further educating consumers on available risk management tools and the protections offered by various insurance coverages for informed decisions.

Over the past 12 months, the membership has laid a solid foundation for the future. In late 2021, a new letter committee was launched for the first time since 2004. The purpose of the Innovation, Cybersecurity, and Technology (H) Committee is to focus on consumer protection through the perspective of cybersecurity, innovation, data security and privacy protections, and emerging technology issues. In June 2022, the NAIC established the Catastrophe Modeling Center of Excellence (COE) within the NAIC's Center for Insurance Policy and Research (CIPR), which will provide regulators with access to knowledge, insights, and catastrophe modeling tools to better assess and address natural and man-made catastrophe risk and resiliency issues. In mid-2022, a request was submitted to the IRS for approval of the New Avenues to Insurance Careers Foundation to help individuals obtain skills relevant to the regulation and business of insurance. Scholarships will be awarded to students to fund college education, internships, and apprenticeships once the foundation is up and running.

Operationally, NAIC continues to move forward with platform modernizations and internal improvement projects designed to enhance key systems, utilize data more effectively, offer greater analytical capabilities, and

reinforce cybersecurity. By providing business intelligence, analytics, and reporting for regulatory oversight, NAIC efforts help make the U.S. one of the strongest and most resilient insurance markets in the world.

The 2023 budget incorporates funding necessary to continue the focus on membership priorities and internal improvements necessary to meet those priorities. It recognizes the need for internal resources to be added to ensure adequate staffing levels for important regulatory and operational needs. The budget also demonstrates a firm commitment to technology advancements and the modernization of insurance regulation in areas such as innovation, cybersecurity, and international standard-setting.

The budget 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 systems, services, data, accreditation reviews, and many other essential services to assist insurance regulators in achieving their fundamental insurance regulatory goals in a timely and cost-effective manner.

Support of the Membership

The mission of the NAIC is to assist the insurance regulators in serving the public interest; promoting a competitive marketplace; facilitating the fair and equitable treatment of insurance customers; ensuring the reliability, solvency, and financial stability of insurers; and supporting and improving state insurance regulation. Leveraging NAIC technology solutions, regulatory tools, and staff resources allow members to achieve these goals at a significant cost savings. Without these options, many systems would be cost-prohibitive for the jurisdictions to implement on their own. Without membership in the NAIC, the amount of jurisdiction 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 jurisdiction pays in member dues to the NAIC and would greatly increase the cost of regulation for insurers.

A Focus on Consumers

The NAIC provides a multi-channel approach to reach and assist consumers to help them make informed decisions and effectively use their insurance benefits. These multi-pronged marketing communications campaigns include consumer education pieces, the NAIC Home Inventory mobile app, and targeted social campaigns. In 2022, the NAIC expanded its efforts by creating cobranded products with departments of insurance, thereby providing greater access to these tools.

Valuable Products and Services

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

By the Numbers

NAIC products and services make life easier.

- ▶ **System for Electronic Rates & Forms Filing (SERFF)** – 548,991 transactions processed in 2021
- ▶ **Online Premium Tax for Insurance (OPTins)** – 169,681 transactions processed in 2021
- ▶ **State Based Systems (SBS)** – back-office services licensed to 34 jurisdictions in 2021
- ▶ **Professional Designation Program** – 1,742 designations awarded since the program's inception in 2006 through year-end 2021
- ▶ **Center for Insurance Policy and Research (CIPR) Key Research Issues** – nearly 200 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 2023 budget includes five fiscals, three of which are technology based and either continues the work of ongoing modernization efforts or lays a solid foundation to modernize additional critical systems.

Building the Budget

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

State Ahead Draws to a Close

State Ahead enabled the NAIC to build on existing strengths as a nexus for innovation and provided a hub of resources for insurance departments to draw upon.

Expected Results for 2022

Based on actual operating results (before adding investment income) through June 30, 2022, the NAIC projects a net negative operating margin of \$3.6 million compared to a budgeted net negative operating margin of \$10.4 million, an improvement of \$6.8 million. Investment income is projected to be a loss of \$15.3 million, resulting in a net asset decrease of nearly \$19.0 million, a decrease of \$10.9 million more than budgeted.

As a result of the continuation of the COVID-19 pandemic, 2022 saw a hybrid approach to most meetings, including the spring and summer national meetings and the Insurance Summit, causing travel, meetings, and member grant and zone spending to be lower than budget.

Additional information regarding 2022 projected variances is included throughout the detailed footnotes of the budget.

2023 Budget

The 2023 budget demonstrates NAIC's continued strong focus on prudent financial management, which is critically important in these unprecedented times. The 2023 budget also assumes the majority of meetings will continue to be offered in a hybrid format.

State Connected to Roll Out in 2023

Ultimately, the goal of *State Connected* is to better protect consumers in the quickly evolving marketplace of insurance, including further educating consumers on available risk management tools and the protections afforded by insurance coverages for making informed decision-making.

The 2023 NAIC operating budget (before adding investment income) reflects revenues of \$144.4 million and expenses of \$149.2 million, which represent an 11.2% and a 6.4% increase, respectively, from the 2022 budget, resulting in \$4.8 million in projected expenses over revenues. Viewed in relation to the 2022 projected totals, the 2023 budget represents an operating revenue increase of 8.4% and operating expense increase of 9.0%. Additional information about the 2023 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 five fiscals included in the 2023 budget is \$1.7 million in expenses, \$6.7 million in capital, and \$5.6 million in revenue. Additional information about each initiative is included in the various fiscal sections of the budget.

The 2023 budget includes \$2.4 million in investment income from the NAIC's Long-Term Investment Portfolio. Investment income is composed of interest and dividends earned reduced by investment management fees. Investment gains and losses are volatile and therefore are not projected nor included in the budget.

Combining budgeted results from operations with budgeted investment income, the 2023 budget has a reduction in net assets of \$2.4 million.

2023 Fiscal Impact Statements

- ▶ **SERFF Modernization - 2023 Transition Stages** – This project is in its second year of a 3-year initiative to improve the SERFF platform. In 2023, users will move by product into the new platform, beginning with the Insurance Compact, followed by life, and property/casualty. In 2024, health and plan management will complete the transition. This request includes the addition of two headcount to support transition stages and provide ongoing support. Funding for 2024 will be requested via a fiscal with the 2024 proposed budget.
 - Expense of \$500K for two headcount, travel, and amortization
 - Capital of \$6.7M for professional and other services
- ▶ **Financial Data Repository (FDR) Modernization Phase I** – FDR supports the loading, processing, and maintenance of insurance company financial statement data. The more than 20-year-old platform has become increasingly difficult to support. This fiscal requests funding for a third-party assessment and consulting to develop new access paths to FDR data tables.
 - Expense of \$380K for professional services
- ▶ **Regulatory Information Retrieval System (RIRS) Coding Project** – FDR supports the loading, processing, and maintenance of insurance company financial statement data. The more than 20-year-old platform has become increasingly difficult to support. This fiscal requests funding for a third-party assessment and consulting to develop new access paths to FDR data tables.
 - Expense of \$200K for professional services
- ▶ **2023 Revenue Enhancements** – This fiscal includes two enhancements to NAIC revenue. First, the group cap factor for Database Filing Fees, which has not been adjusted in three decades, will increase from three times the individual company cap to five to address inequalities in fees between large groups and individual filers. Second is a new fee to partially cover the ongoing costs of compiling, reviewing, and analyzing life insurance mortality experience data as required in VM-50 and VM-51 of the *Valuation Manual*.
 - Revenue of \$5.6M
- ▶ **2023 Staffing Requests** – Workload increases related to regulatory support and operational business requirements necessitates the expansion of NAIC staff by 6.5 full-time employees. This fiscal excludes two headcount requested in the SERFF Modernization fiscal.
 - 2023 Salary/benefits expense of \$587K

Preparing for the Unknown

The budget includes all known activities anticipated to occur in 2023. However, situations may arise during 2023 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 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, 2023, or \$2.5 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 Target

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

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

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

necessary for strategic initiatives planned in the upcoming three years that are not currently included in the budget. Based on the evaluation of these three areas, the NAIC's operating reserve target for 2023 was established at \$169.6 million. This target recognizes 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, represented by many elements of the 2023 budget.

Contact Information

The NAIC appreciates the opportunity to present this 2023 budget and believes it provides a comprehensive review of the NAIC's business and financial operations for the current and upcoming fiscal year. A summary of the key components of the 2023 budget is included in the budget overview.

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



2023 Budget Overview

NAIC NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

Current State

- During 2022, the NAIC began to return to a “new normal” as most meetings were held in a hybrid format and travel, both international and domestic, began to return to normal. Face-to-face interaction is an important aspect of ensuring collaboration between the regulators, insurers, and interested parties.
- The NAIC continued to implement the priorities outlined in the NAIC’s strategic plan, *State Ahead*. The NAIC formed a new committee – Innovation, Cybersecurity, and Technology (H) Committee – the first new letter committee since 2004. Also in June 2022, the Catastrophe Modeling Center of Excellence was approved as part of the NAIC’s Center for Insurance Policy and Research (CIPR) to provide regulators with access to knowledge, insight, and modeling to better understand catastrophe risk and resiliency issues.
- The NAIC continues to be flexible in how it manages its operations, maintaining its primary focus on providing outstanding support to its members and others that depend on the services provided by the NAIC. The next iteration of the NAIC strategic plan, *State Connected*, is nearing completion and is expected to be approved by the members within the next few months.

Financial Performance in 2022 is above budget

(dollars in millions)

	2021 Actual	2022 Budget	2022 Projection	Change 2022 Budget vs 2022 Projection
Operating Revenue	\$125.0	\$129.9	\$133.3	\$3.4
Operating Expense	121.7	140.3	136.9	(3.4)
Operating Revenues Over/(Under) Expenses	3.3	(10.4)	(3.6)	6.8
Investment Income	11.9	2.4	(15.3)	(17.7)
Net Revenues Over/(Under) Expenses	<u>\$15.2</u>	<u>(\$8.0)</u>	<u>(\$18.9)</u>	<u>(\$10.9)</u>

Operating results are expected to be above budget by \$6.8M due to a \$3.4M (2.6%) over run in operating revenue and a \$3.4M (2.4%) under run in operating expense.

Investment income is expected to be \$17.7M under budget due to realized/unrealized net investment losses impacting both equity and fixed income investments.

Overall, net assets at the end of 2022 are expected to decrease by nearly \$19.0M, ending the year at \$166.5M.

2022 Revenues

(dollars in millions)

	Budget	Projection	Variance
Member Assessments	\$2.1	\$2.1	—
Database Fees	33.5	34.4	\$0.9
Publications and Insurance Data Products	17.5	17.6	0.1
Valuation Services	29.1	30.0	0.9
Transaction Filing Fees	19.1	18.8	(0.3)
National and Major Meetings	2.7	2.2	(0.5)
Education and Training	0.4	0.5	0.1
Administrative Services and License Fees	25.4	27.6	2.2
Other	0.1	0.1	0.0
Total Revenue	\$129.9	\$133.3	\$3.4

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

- National and Major Meetings fees were lower than budgeted due to decreased in-person registration for most meetings.
- Administrative Services and License Fees revenue is above budget due to higher-than-budgeted revenues generated by the NAIC’s affiliate National Insurance Producer Registry (NIPR).
- Most other revenue categories are slightly above budget due to the number of transactions processed.

2022 Expenses

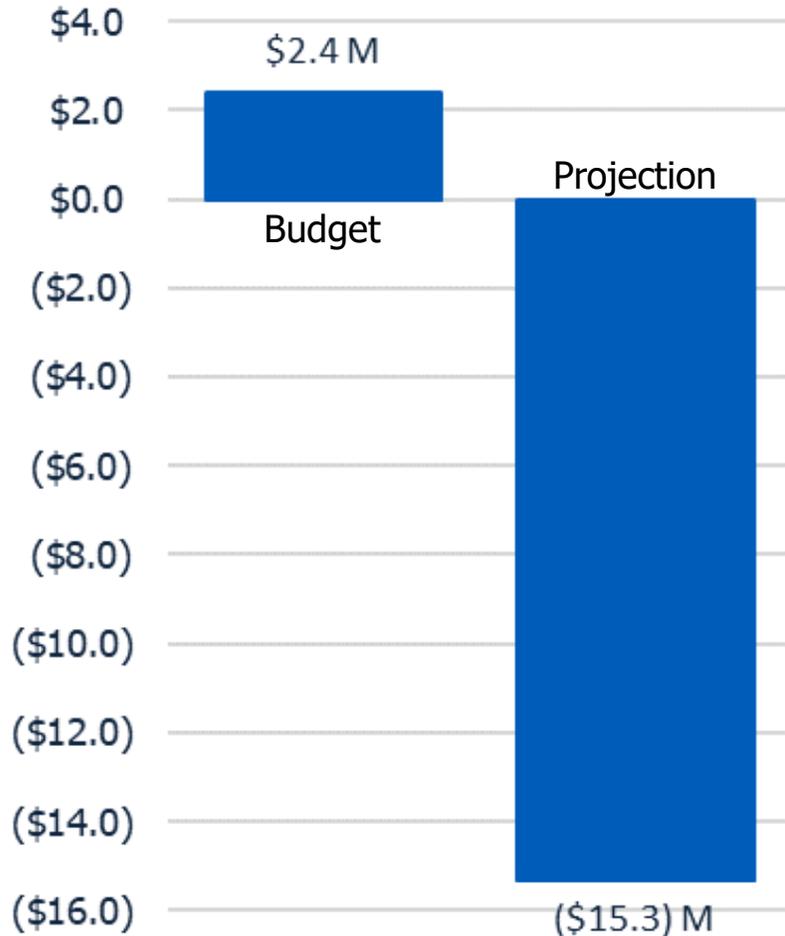
(dollars in millions)

	Budget	Projection	Variance
Salaries, Taxes, and Benefits	\$81.3	\$79.5	(\$1.7)
Professional Services	17.9	17.3	(0.7)
Computer Services	8.0	8.0	0.0
Travel	4.8	4.2	(0.6)
Occupancy and Rental	4.7	4.6	(0.1)
Computer Hardware and Software Maintenance	8.6	8.6	0.0
Depreciation and Amortization	4.1	4.1	0.0
National and Major Meetings	4.6	4.4	(0.2)
Education and Training	0.3	0.2	(0.1)
Grant and Zone	2.4	2.4	0.0
Administrative and Operational	3.6	3.6	0.0
Total Expense	\$140.3	\$136.9	(\$3.4)

Most expense categories were at or slightly below budget, resulting in a 2.4% budget under run.

- Staffing costs (salaries, taxes, and benefits) comprise 58.1% of projected expenses and are slightly below budget due to more open positions than projected as a result of the challenging recruiting environment.
- Professional Services costs are slightly under budget due to the capitalization of a few major projects.
- Travel expenses are 13.0% under budget but are beginning to return to historical trends as the impact of the pandemic is declining.

2022 Investment Income



The composition of the NAIC’s investment portfolio is a diversified blend of fixed income, equities, real assets, and alternative investments. Through August, the portfolio’s return is negative due to investments in equity and fixed income partially offset by positive returns in alternative investments – the negative returns were generally driven by increasing interest rates in most developed countries and the growing fear of a global recession. Market volatility is relatively high as world economic growth is slowing while political unrest and climate concerns are increasing.

Looking to 2023

Although COVID-19 is still a lingering concern, the NAIC expects to have a full slate of in-person meetings in 2023, although most meetings will continue to have a hybrid component to allow attendees to participate remotely.

- The NAIC will host the IAIS Global Seminar in Seattle – the first large IAIS meeting hosted by the NAIC since 2012.

The NAIC will begin the implementation of its new strategic plan *State Connected* after it is approved by the membership within the next few months. This plan will continue the work begun in the first strategic plan, *State Ahead*, and will focus on member connectivity, technology and data analytics, regulatory training and consumer education, and NAIC operations.

In addition to continuing to modernize the NAIC's regulatory support systems, the NAIC will also begin implementing a new ERP system over the next two years to update its back-office human resources and financial systems.

2023 Budget (dollars in millions)

	2021 Actual	2022 Budget	2022 Projection	2023 Budget	2023 Budget Increase (Decrease) from 2022 Budget	2023 Budget Increase (Decrease) from 2022 Projection
Operating Revenue	\$125.0	\$129.9	\$133.3	\$144.4	\$14.6	\$11.2
Operating Expense	121.7	140.3	136.9	149.2	8.9	12.3
Operating Revenues Over/(Under) Expenses	3.3	(10.4)	(3.6)	(4.8)	5.7	(1.1)
Investment Income	11.9	2.4	(15.3)	2.4	0.0	17.7
Net Revenues Over/(Under) Expenses	\$15.2	(\$8.0)	(\$18.9)	(\$2.4)	\$5.7	\$16.6

Operating revenues are budgeted to increase by \$11.2M compared to the 2022 projection, with an overall increase of 8.4%. There is a fiscal included in the 2023 budget requesting a revenue enhancement of \$5.6M comprised of two different revenue components.

Operating expenses are budgeted to increase \$12.3M over the 2022 projection and are \$8.9M higher than the 2022 budget. There are four fiscals included in the 2023 budget with expenses of \$1.7M and capital incurrences of \$6.7M.

Investment income is budgeted to be \$2.4M in 2023. This represents interest and dividends earned less investment management fees – realized/unrealized gains and losses are not budgeted due to the unpredictable nature of the financial markets.

After the inclusion of investment income, the NAIC’s Net Assets are budgeted to decline \$2.4M.

2023 Operating Revenue

(dollars in millions)

	2021 Actual	2022 Budget	2022 Projection	2023 Budget	2023 Budget Increase (Decrease) from 2022 Budget	2023 Budget Increase (Decrease) from 2022 Projection
Member Assessments	\$2.1	\$2.1	\$2.1	\$2.1	—	—
Database Fees	32.8	33.5	34.4	40.2	\$6.7	\$5.8
Publications and Insurance Data Products	16.9	17.5	17.6	18.1	0.6	0.5
Valuation Services	31.0	29.1	30.0	30.3	1.2	0.3
Transaction Filing Fees	14.7	19.1	18.8	21.7	2.6	2.9
National and Major Meetings	1.2	2.7	2.2	3.1	0.4	0.9
Education and Training	0.3	0.4	0.5	0.4	—	(0.1)
Administrative Services and License Fees	26.0	25.4	27.6	28.5	3.1	0.9
Other	-	0.1	0.1	0.0	(0.1)	(0.1)
TOTAL OPERATING REVENUES	\$125.0	\$129.9	\$133.3	\$144.4	\$14.5	\$11.1

Operating revenues increase \$11.1M compared to 2022 projection:

- Overall premium growth is expected to be between 1.5 - 3.5% for most insurers and an increase in the individual and group Cap of 3.6% based on the increase in the 2021 CPI-U. Additionally, the group cap has changed from three times the individual cap to five times, as outlined in the 2023 Revenue Enhancements fiscal.
- Transaction Filing Fees increase \$2.9M due to an increase in the minimum charge for OPTins transactions, a minimal price increase in SERFF filing fees based on the 2021 CPI-U, new jurisdictions on the SBS platform, and Experience Data Fees, which is a new fee included in the 2023 Revenue Enhancements fiscal.
- National and Major Meetings registration revenues increase by \$0.9M due to an increase in the number of in-person registrations in 2023 as well as a slight increase in national meeting registration fees.
- Administrative Services and License Fees increase by \$0.9M due to anticipated growth in NIPR revenues.

2021 Actual – 2023 Budget Revenue Composition

(dollars in millions)

	2021 Actual	2021 Composite Mix	2022 Budget	2022 Budget Composite Mix	2022 Projection	2022 Projection Composite Mix	2023 Budget	2023 Composite Mix
Member Assessments	\$2.1	1.7%	\$2.1	1.6%	\$2.1	1.6%	\$2.1	1.5%
Database Fees	32.8	26.2%	33.5	25.8%	34.4	25.8%	40.2	27.8%
Publications and Insurance Data Products	16.9	13.5%	17.5	13.5%	17.6	13.2%	18.1	12.5%
Valuation Services	31.0	24.8%	29.1	22.4%	30.0	22.5%	30.3	21.0%
Transaction Filing Fees	14.7	11.8%	19.1	14.7%	18.8	14.1%	21.7	15.0%
National and Major Meetings	1.2	1.0%	2.7	2.1%	2.2	1.7%	3.1	2.2%
Education and Training	0.3	0.2%	0.4	0.3%	0.5	0.4%	0.4	0.3%
Administrative Services and License Fees	26.0	20.8%	25.4	19.6%	27.6	20.7%	28.5	19.7%
Other	0.0	0.0%	0.1	0.1%	0.1	0.1%	0.0	0.0%
TOTAL OPERATING REVENUES	\$125.0	100.0%	\$129.9	100.0%	\$133.3	100.0%	\$144.4	100.0%

Database Fees remains the largest category at 27.8% of revenues.

Valuation Services continues as the second largest category but is experiencing relatively low growth.

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

National and Major Meeting registrations are rebounding due to the return of in-person meetings.

2023 Operating Expenses

(dollars in millions)

	2021 Actual	2022 Budget	2022 Projection	2023 Budget	2023 Budget Increase (Decrease) from 2022 Budget	2023 Budget Increase (Decrease) from 2022 Projection
Salaries, Taxes, and Benefits	\$75.9	\$81.3	\$79.5	\$89.5	\$8.2	\$10.0
Professional Services	15.4	17.9	17.3	16.3	(1.6)	(1.0)
Computer Services	6.5	8.0	8.0	8.4	0.4	0.4
Travel	1.4	4.8	4.2	5.6	0.8	1.3
Occupancy and Rental	4.3	4.7	4.6	4.6	(0.1)	—
Computer Hardware and Software Maintenance	6.9	8.6	8.6	8.4	(0.2)	(0.2)
Depreciation and Amortization	4.1	4.1	4.1	4.4	0.3	0.3
National and Major Meetings	3.1	4.6	4.4	5.7	1.0	1.3
Education and Training	0.1	0.3	0.2	0.3	—	0.1
Grant and Zone	1.1	2.4	2.4	2.8	0.4	0.4
Administrative and Operational	2.8	3.6	3.6	3.2	(0.3)	(0.3)
TOTAL OPERATING EXPENSES	\$121.7	\$140.3	\$136.9	\$149.2	\$8.9	\$12.3

Operating expenses increase \$12.3M over 2022 projections:

- Salaries, Taxes, and Benefits expenses increase \$10.0M due to an increase in the number of employees as well as merit and market-driven salary increases, and higher costs associated with the NAIC's defined benefit plan.
- Travel and National and Major Meeting expenses increase \$2.6M in total due to the complete return of in-person meetings in 2023, the cost of the IAIS Global Seminar, and inflationary pressures.
- Grant and Zone expense increases \$0.4M due an increase in grant and zone funding and increased use of grant funds.
- Computer Services expenses increase by \$0.4M due to increased Cloud costs and credit card fees due to higher revenue, partially offset by efficiency gains and the completion of data conversions in 2022.
- Computer Hardware and Software Maintenance expenses decrease \$0.2M compared to 2022 projections as the migration to the Cloud for most applications has been completed.

2021 Actual – 2023 Budget Expense Composition

(dollars in millions)

	2021 Actual	2021 Composite Mix	2022 Budget	2022 Budget Composite Mix	2022 Projection	2022 Projection Composite Mix	2023 Budget	2023 Composite Mix
Salaries, Taxes, and Benefits	\$75.9	62.4%	\$81.3	58.0%	\$79.5	58.1%	\$89.5	60.0%
Professional Services	15.4	12.7%	17.9	12.8%	17.3	12.6%	16.3	10.9%
Computer Services	6.5	5.3%	8.0	5.7%	8.0	5.8%	8.4	5.6%
Travel	1.4	1.2%	4.8	3.4%	4.2	3.1%	5.6	3.8%
Occupancy and Rental	4.3	3.5%	4.7	3.4%	4.6	3.4%	4.6	3.1%
Computer Hardware and Software Maintenance	6.9	5.7%	8.6	6.1%	8.6	6.3%	8.4	5.6%
Depreciation and Amortization	4.1	3.4%	4.1	2.9%	4.1	3.0%	4.4	3.0%
National and Major Meetings	3.1	2.6%	4.6	3.3%	4.4	3.2%	5.7	3.8%
Education and Training	0.1	0.1%	0.3	0.2%	0.2	0.2%	0.3	0.2%
Grant and Zone	1.1	0.9%	2.4	1.7%	2.4	1.8%	2.8	1.9%
Administrative and Operational	2.8	2.3%	3.6	2.6%	3.6	2.6%	3.2	2.1%
TOTAL OPERATING EXPENSES	\$121.7	100.0%	\$140.3	100.0%	\$136.9	100.0%	\$149.2	100.0%

Staffing costs remains the largest category of total expense at 60.0% of 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.

Travel, National and Major Meetings, and Grant/Zone expenses are expected to return to historical norms as more people begin to attend meetings in person.

2023 Fiscal Summary

SERFF Modernization – 2023 Transition Stages – This is the second year of a three-year initiative to modernize the System for Electronic Rates and Forms Filings (SERFF), a platform that enables insurance companies to efficiently file rates, submit forms, and filing changes. This fiscal will complete significant upgrades and will result in moving Insurance Compact filings, life insurance filings, and property/casualty insurance filings to the new platform by the end of 2023. The funding needed to complete transition work in 2024 will be requested via a separate fiscal submitted with the 2024 proposed budget. This fiscal also requests two additional headcount.

- Expenses of \$0.5M for staffing, travel, and amortization expense
- Capital professional services and software of \$6.7M

Financial Data Repository (FDR) Modernization Phase 1 – FDR is over 20 years old and supports the loading, processing, and maintenance of insurance companies' financial statement data. FDR was developed in technologies that are now outdated and more difficult to support than modern systems. This fiscal requests funding to initiate a third-party assessment to generate initial NAIC plans to modernize the platform used for FDR as well as to use third-party consultants to develop new access paths to FDR data tables.

- Expenses of \$0.4M for professional services

2023 Fiscal Summary (Con't)

Regulatory Information Retrieval System (RIRS) Coding Project – The RIRS is an NAIC created platform that contains records of regulatory actions taken by participating insurance departments against insurance producers, companies, and other entities engaged in the business of insurance. The benefit of the system is that regulators have a common, uniform system in which to enter, view, and follow up on regulatory actions. This fiscal proposes significant coding revisions to RIRS to enhance system reporting and update a segment of the platform's coding structure.

- Expenses of \$0.2M for professional services in 2023 and another \$0.2M in 2024

2023 Revenue Enhancements – This fiscal outlines two revenue enhancement proposals as part of the NAIC's 2023 budget. The first revenue enhancement is an increase in the Database Filing Fee group cap, which increases the group cap from three times the individual company cap to five times the individual company cap. The second revenue enhancement is a new fee to partially cover the ongoing costs of compiling, reviewing, and analyzing life insurance mortality experience data as required in VM-50 and VM-51 of the *Valuation Manual*.

- Revenue of \$5.6M

2023 Fiscal Summary (Con't)

2023 Staffing Requests – The increase in workload related to regulatory support and operational business requirements necessitates the expansion of NAIC staff by 6.5 full-time employees. These new roles are in the areas of market regulation; financial regulatory services; research and actuarial services; information technology; people operations and engagement; and strategic business initiatives. This fiscal excludes the two headcount requested in the SERFF Modernization fiscal.

- Salary/benefits expense of \$0.6M in 2023

2023 Fiscal Impact Statements Summary

(dollars in millions)

Initiative	2023 Capital	2023 Revenue	2023 Expense	Net Impact on 2023 Budget
2023 Operational Budget Before Fiscals	\$5.0	\$138.8	\$147.5	(\$8.7)
SERFF Modernization - 2023 Transition Stages	6.7		0.5	(0.5)
Financial Data Repository (FDR) Modernization Phase 1			0.4	(0.4)
Regulatory Information Retrieval System (RIRS) Coding Project			0.2	(0.2)
2023 Revenue Enhancements		5.6		5.6
2023 Staffing Requests			0.6	(0.6)
Total Fiscal Impact Statements	6.7	5.6	1.7	3.9
2023 Operational Budget After Fiscals	11.7	144.4	149.2	(4.8)
Investment Income		2.4		2.4
2023 Budget After Fiscals and Investment Income	\$11.7	\$146.8	\$149.2	(\$2.4)

2023 Headcount

2023 Headcount by Department

Division	Current Approved Headcount	Fiscal Requests	Headcount including 2023 Fiscals
CIPR	8.5		8.5
Communications	10.0		10.0
Executive (includes Finance)	25.5	0.5	26.0
Financial Regulatory Services	115.0	1.0	116.0
Government Relations	20.0		20.0
Information Technology Group	226.0	3.0	229.0
Legal	14.0		14.0
Member Services	27.0		27.0
People Operations\Benefits\Diversity, Equity & Inclusion	14.0	2.0	16.0
Regulatory Services	32.5	2.0	34.5
Technical Services	22.0		22.0
Total Headcount	514.5	8.5	523.0

The 2023 budget requests 8.5 new headcount to support regulatory and business operations.

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

Employees are assigned to the NAIC’s three office locations - Kansas City, MO (449), New York, NY (51), and Washington, D.C. (23) – but may have the ability to work remotely depending on their job responsibilities.

Leaning Into 2024 and Beyond

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

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

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

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

**2023 BUDGET
REVENUE AND EXPENSE SUMMARY**

Description	2022					2023				
	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2022 Projected Variance	2023 Budget	Increase (Decrease) from 2022 Budget	%	Increase (Decrease) from 2022 Projected	%
Operational Revenues	\$125,078,315	\$80,771,765	\$133,270,697	\$129,869,811	\$3,400,886	\$138,828,880	\$8,959,069	6.9%	\$5,558,183	4.2%
Operational Expenses	121,782,760	62,999,719	136,917,774	140,310,524	(3,392,750)	147,581,295	7,270,771	5.2%	10,663,521	7.8%
Operating Revenues Over/(Under) Expenses Before Fiscal Impact Statements	3,295,555	17,772,046	(3,647,077)	(10,440,713)	6,793,636	(8,752,415)	1,688,298		(5,105,338)	
Fiscal Impact Statement Revenues (1)						5,600,000	5,600,000		5,600,000	
Fiscal Impact Statement Expenses (1)						1,666,832	1,666,832		1,666,832	
Fiscal Impact Statement Revenues Over/(Under) Expenses						3,933,168	3,933,168		3,933,168	
Investment Income	11,857,668	(19,778,538)	(15,328,512)	2,400,115	(17,728,627)	2,391,500	(8,615)		17,720,012	
Total Revenues After Fiscal Impact Statements	136,935,983	60,993,227	117,942,185	132,269,926	(14,327,741)	146,820,380	14,550,454	11.0%	28,878,195	24.5%
Total Expenses After Fiscal Impact Statements	121,782,760	62,999,719	136,917,774	140,310,524	(3,392,750)	149,248,127	8,937,603	6.4%	12,330,353	9.0%
Total Revenues Over/(Under) Expenses	<u>\$15,153,223</u>	<u>(\$2,006,493)</u>	<u>(\$18,975,589)</u>	<u>(\$8,040,598)</u>	<u>(\$10,934,991)</u>	<u>(\$2,427,747)</u>	<u>\$5,612,851</u>		<u>\$16,547,842</u>	

(1) See the Fiscal Impact section for details.

NAIC NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS
2023 BUDGET WITH FISCAL IMPACT STATEMENTS
REVENUE AND EXPENSE BY LINE

Description	Reference	2022					2023				
		2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2022 Projected Variance	2023 Budget	Increase (Decrease) from 2022 Budget	%	Increase (Decrease) from 2022 Projected	%
Member Assessments	R1	\$2,114,812	\$1,059,055	\$2,119,591	\$2,119,592	(\$1)	\$2,125,696	\$6,104	0.3%	\$6,105	0.3%
Database Fees	R2	32,780,920	34,387,083	34,387,083	33,451,037	936,046	40,153,747	6,702,710	20.0%	5,766,664	16.8%
Publications and Insurance Data Products	R3	16,933,828	10,680,282	17,611,041	17,491,032	120,009	18,056,066	565,034	3.2%	445,025	2.5%
Valuation Services	R4	30,992,789	10,459,811	29,975,899	29,167,475	808,424	30,418,875	1,251,400	4.3%	442,976	1.5%
Transaction Filing Fees	R5	14,673,606	9,479,093	18,843,125	19,123,590	(280,465)	21,724,233	2,600,643	13.6%	2,881,108	15.3%
National and Major Meetings	R6	1,242,231	691,459	2,187,026	2,681,132	(494,106)	3,061,118	379,986	14.2%	874,092	40.0%
Education and Training	R7	323,310	206,890	469,764	410,940	58,824	363,893	(47,047)	-11.4%	(105,871)	-22.5%
Administrative Services and License Fees	R8	26,016,819	13,758,192	27,611,668	25,366,653	2,245,015	28,478,852	3,112,199	12.3%	867,184	3.1%
Other	R9		49,900	65,500	58,360	7,140	46,400	(11,960)	-20.5%	(19,100)	-29.2%
Total Operating Revenues		125,078,315	80,771,765	133,270,697	129,869,811	3,400,886	144,428,880	14,559,069	11.2%	11,158,183	8.4%
Salaries	E1	58,062,625	29,738,153	61,065,644	62,053,672	(988,028)	66,663,162	4,609,490	7.4%	5,597,518	9.2%
Temporary Personnel	E2	767,225	354,014	853,916	1,004,460	(150,544)	1,209,392	204,932	20.4%	355,476	41.6%
Payroll Taxes	E3	4,253,401	2,447,418	4,439,376	4,475,989	(36,613)	4,962,808	486,819	10.9%	523,432	11.8%
Employee Benefits	E4	12,307,081	6,041,044	12,324,220	12,584,850	(260,630)	15,807,992	3,223,142	25.6%	3,483,772	28.3%
Employee Development	E5	566,233	354,643	836,416	1,144,335	(307,919)	904,863	(239,472)	-20.9%	68,447	8.2%
Professional Services	E6	15,361,447	5,595,543	17,261,094	17,913,467	(652,373)	16,327,086	(1,586,381)	-8.9%	(934,008)	-5.4%
Computer Services	E7	6,451,381	4,032,512	8,033,904	7,987,919	45,984	8,444,618	456,699	5.7%	410,714	5.1%
Travel	E8	1,408,766	1,459,042	4,170,796	4,795,742	(624,947)	5,556,797	761,055	15.9%	1,386,001	33.2%
Occupancy and Rental	E9	4,323,963	2,319,490	4,579,924	4,722,460	(142,536)	4,618,793	(103,667)	-2.2%	38,869	0.8%
Computer Hardware and Software Maintenance	E10	6,913,179	3,986,967	8,656,779	8,620,166	36,613	8,371,345	(248,821)	-2.9%	(285,434)	-3.3%
Depreciation and Amortization	E11	4,051,435	2,021,269	4,082,793	4,114,256	(31,463)	4,371,487	257,231	6.3%	288,694	7.1%
Operational	E12	1,626,355	933,360	1,648,186	2,027,747	(379,561)	1,608,719	(419,028)	-20.7%	(39,467)	-2.4%
Library Reference Materials	E13	357,206	176,240	371,151	370,242	909	383,261	13,019	3.5%	12,110	3.3%
National and Major Meetings	E14	3,132,253	1,660,048	4,483,822	4,640,047	(156,225)	5,682,792	1,042,745	22.5%	1,198,969	26.7%
Education and Training	E15	143,310	21,958	189,901	265,063	(75,162)	304,291	39,228	14.8%	114,390	60.2%
Grant and Zone	E16	1,078,283	714,857	2,367,465	2,405,956	(38,491)	2,784,950	378,994	15.8%	417,485	17.6%
Other	E17	978,617	1,143,160	1,552,388	1,184,153	368,235	1,245,772	61,619	5.2%	(306,616)	-19.8%
Total Operating Expenses		121,782,760	62,999,719	136,917,774	140,310,524	(3,392,750)	149,248,127	8,937,603	6.4%	12,330,353	9.0%
Revenues Over/(Under) Expenses before Investment Income		3,295,555	17,772,046	(3,647,077)	(10,440,713)	6,793,636	(4,819,247)	5,621,466		(1,172,170)	
Investment Income	III	11,857,668	(19,778,538)	(15,328,512)	2,400,115	(17,728,627)	2,391,500	(8,615)		17,720,012	
Revenues Over/(Under) Expenses		\$15,153,223	(\$2,006,493)	(\$18,975,589)	(\$8,040,598)	(\$10,934,991)	(\$2,427,747)	\$5,612,851		\$16,547,842	

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 on relative premium volume of their respective domiciled companies to total premium volume.

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Member Assessments (1)	\$2,114,812	\$1,059,055	\$2,119,591	\$2,119,592	\$2,125,696	\$6,104	0.3%

(1) In exchange for annual member assessments, the NAIC delivers a wide array of funding, information, products, and services, generally at no charge to 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 2022 - April 2023 assessment and eight months of the May 2023 - April 2024 assessment. The May 2023 - April 2024 member assessments are illustrated in Exhibit R1-One.

NAIC MEMBER ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$7,339 Minimum \$125,000 Cap 2023/24 Amount	\$7,339 Minimum \$125,000 Cap 2022/23 Amount	\$7,339 Minimum \$125,000 Cap 2021/22 Amount
Alabama	\$33,854,694,840	1.2080%	\$27,838	\$27,838	\$27,417	\$26,944
Alaska	4,351,681,702	0.1553%	3,579	7,339	7,339	7,339
American Samoa	4,298,541	0.0002%	5	7,339	7,339	7,339
Arizona	42,916,257,426	1.5314%	35,291	35,291	35,059	34,858
Arkansas	20,422,987,330	0.7287%	16,793	16,793	16,208	16,380
California	184,339,162,300	6.5777%	151,583	125,000	125,000	125,000
Colorado	51,062,840,089	1.8220%	41,988	41,988	39,620	39,136
Connecticut	44,548,358,265	1.5896%	36,632	36,632	39,355	36,990
Delaware	95,058,412,175	3.3919%	78,166	78,166	71,477	61,678
District Of Columbia	11,569,430,670	0.4128%	9,513	9,513	9,647	10,274
Florida	209,375,691,675	7.4710%	172,169	125,000	125,000	125,000
Georgia	78,792,940,220	2.8115%	64,791	64,791	66,443	63,964
Guam	594,968,791	0.0212%	489	7,339	7,339	7,339
Hawaii	14,743,208,460	0.5261%	12,124	12,124	12,395	12,816
Idaho	11,938,705,487	0.4260%	9,817	9,817	9,777	9,402
Illinois	110,745,818,218	3.9517%	91,067	91,067	89,127	88,481
Indiana	48,616,914,267	1.7348%	39,979	39,979	40,450	41,849
Iowa	45,746,241,651	1.6323%	37,616	37,616	38,396	35,785
Kansas	25,752,247,058	0.9189%	21,176	21,176	20,882	21,295
Kentucky	35,706,142,759	1.2741%	29,362	29,362	29,430	29,273
Louisiana	44,160,876,817	1.5758%	36,314	36,314	36,485	36,164
Maine	9,785,933,810	0.3492%	8,047	8,047	7,891	8,092
Maryland	44,511,325,295	1.5883%	36,602	36,602	38,047	38,552
Massachusetts	65,948,927,436	2.3532%	54,230	54,230	54,798	56,470
Michigan	80,979,101,297	2.8895%	66,589	66,589	69,168	69,156
Minnesota	53,066,532,790	1.8935%	43,636	43,636	43,063	44,077
Mississippi	18,860,161,190	0.6730%	15,509	15,509	15,564	15,770
Missouri	46,306,010,826	1.6523%	38,077	38,077	38,401	39,011
Montana	6,865,006,294	0.2450%	5,646	7,339	7,339	7,339
Nebraska	18,374,680,618	0.6557%	15,111	15,111	14,253	15,083
Nevada	22,287,490,958	0.7953%	18,328	18,328	17,687	17,928
New Hampshire	11,499,164,676	0.4103%	9,455	9,455	9,580	9,265
New Jersey	87,840,328,673	3.1344%	72,232	72,232	73,264	77,161
New Mexico	16,318,842,534	0.5823%	13,419	13,419	13,947	13,813
New York	262,546,804,424	9.3683%	215,893	125,000	125,000	125,000
North Carolina	70,305,378,572	2.5087%	57,813	57,813	53,099	54,461
North Dakota	7,622,586,484	0.2720%	6,268	7,339	7,339	7,339
Northern Mariana Islands	74,968,624	0.0027%	62	7,339	7,339	7,339
Ohio	121,297,939,125	4.3282%	99,744	99,744	96,851	96,454
Oklahoma	23,464,063,973	0.8373%	19,296	19,296	19,332	20,001
Oregon	35,128,183,172	1.2535%	28,887	28,887	29,286	25,857
Pennsylvania	128,696,658,603	4.5922%	105,827	105,827	108,986	112,075
Puerto Rico	17,676,675,825	0.6307%	14,535	14,535	14,393	14,049
Rhode Island	10,747,146,108	0.3835%	8,838	8,838	8,597	9,233
South Carolina	37,341,859,763	1.3324%	30,705	30,705	30,178	30,670
South Dakota	8,832,928,335	0.3152%	7,264	7,339	7,339	7,339
Tennessee	51,924,319,918	1.8528%	42,698	42,698	43,318	42,881
Texas	219,154,524,023	7.8200%	180,212	125,000	125,000	125,000
US Virgin Islands	541,220,652	0.0193%	445	7,339	7,339	7,339
Utah	22,568,596,372	0.8053%	18,558	18,558	17,160	17,192
Vermont	4,080,379,158	0.1456%	3,355	7,339	7,339	7,339
Virginia	65,807,800,166	2.3482%	54,114	54,114	53,934	53,998
Washington	55,923,247,999	1.9955%	45,986	45,986	44,480	45,641
West Virginia	12,494,109,942	0.4458%	10,273	10,273	10,281	10,320
Wisconsin	45,774,585,300	1.6334%	37,642	37,642	39,957	40,739
Wyoming	3,547,579,069	0.1266%	2,918	7,339	7,339	7,339

Total Member Assessments	\$2,802,496,940,745	100.00%	\$2,304,506	\$2,128,008	\$2,121,073	\$2,116,628
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Four months of the May 2022-April 2023 assessment	\$707,024
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Eight months of the May 2023-April 2024 assessment	1,418,672
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Total calendar year 2023 assessment	\$2,125,696
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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>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$32,780,920	\$34,387,083	\$34,387,083	\$33,451,037	\$40,153,747	\$6,702,710	20.0%

(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.

Database filing fees are calculated using an insurance company's premiums or assumed reinsurance multiplied by a base factor, subject to a minimum fee and individual and group caps. Calculation of fees in a consistent method more evenly distributes 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 2022 are based on actual 2021 data year filings received in 2022 through August 31. The projected over budget variance reflects the average premium growth within the industry of 10% compared to the anticipated average of 2%. The 2023 budget incorporates an increase in premiums over current year filings ranging from 1.5% to 3.5%. Additionally, the year-end 2021 CPI-U of 3.6% has been applied to filing fee caps for 2023, resulting in an individual company cap of \$94,646. The filing fee floor and combined filing fee remain unchanged at \$240 and \$690, respectively. The filing fee calculation of \$26 per million in premium also remains the same.

In addition to the individual cap and filing fee floor, database filing fees include a group cap. This cap limits the impact of filing fees for groups with aggregate fees that exceed the cap. The group cap has been set at three times the individual cap since the early 1990s. Since that time the industry has seen significant merger and acquisition activity with many groups now containing over 40 reporting entities and two groups having nearly 100 reporting entities. As a result of the growth in the number of reporting entities within groups, a company's prorated filing fee within that group continues to decrease while the cost of regulation to support those entities continues to increase. To address this growing inequity, the group cap has been increased from three times the individual filing fee cap (\$283,938) to five times (\$473,230) as detailed in Fiscal 4-2023 Revenue Enhancements. This change only impacts large groups that currently exceed the cap by increasing the group cap \$189,292. This increase does not impact the 3,733 companies outside of a group that reaches the fee cap. This increased group cap still provides the 32 groups with 1,115 companies a group filing fee that is significantly less than the standard \$26 per million in premium that is incurred by most insurance companies, resulting in \$14.6 million in savings while providing \$4.6 million in funding for regulatory activities.

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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Publications (1)	\$1,673,334	\$736,893	\$1,678,779	\$1,955,817	\$1,741,509	(\$214,309)	-11.0%
Insurance Data Products (2)	10,852,379	8,385,539	11,161,526	11,186,830	11,514,062	327,233	2.9%
Filing Support Product Platform (3)	4,408,115	1,557,850	4,770,736	4,348,385	4,800,495	452,110	10.4%
Total	<u>\$16,933,828</u>	<u>\$10,680,282</u>	<u>\$17,611,041</u>	<u>\$17,491,032</u>	<u>\$18,056,066</u>	<u>\$565,034</u>	3.2%

- (1) Publications revenue is generated from the sale of digital publications as well as royalties from the sale of these products by third-party vendors. The NAIC produces approximately 150 publications, which are designed to: (1) provide state insurance regulators with handbooks, statistical reports, and white papers, in an effort to offer best practices and coordinated regulatory approaches to insurance regulation and (2) provide the insurance industry with a variety of handbooks, tools, and electronic applications to facilitate industry compliance with state insurance regulatory requirements. Projections for 2022 and the 2023 budget reflect a continued decline in the sale of NAIC digital products. Royalties will increase \$65,000 due to increased redistribution of NAIC products.
- (2) Revenues generated from the sale of insurance data products include (1) contracts with third-party vendors who use, market, and sometimes redistribute NAIC data (\$10.7 million) and (2) direct sales to customers (\$834,000). This data is leveraged to conduct research and benchmark specific company data and performance to various industry aggregates, among other activities. The budgeted increase in revenue in 2023 is related to minor (5% or less) price increases for contractual and direct sales agreements. The price for downloads remains unchanged.
- (3) Several business partners leverage the NAIC Filing Support Product (FSP) 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. The increase in royalties is related to contractual price increases designed to recover increased costs of maintaining this platform.

BUDGET ITEM: Valuation Services

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Capital Markets and Investment Analysis Fees (1)	\$11,630,625	\$5,902,475	\$11,752,000	\$11,543,775	\$12,021,450	\$477,675	4.1%
Structured Securities (2)	12,850,305	957,789	11,004,380	10,935,000	11,167,500	232,500	2.1%
Automated Valuation Service (3)	6,511,859	3,599,547	7,219,519	6,688,700	7,229,925	541,225	8.1%
Total	\$30,992,789	\$10,459,811	\$29,975,899	\$29,167,475	\$30,418,875	\$1,251,400	4.3%

(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 2022 are projected to exceed budget due to a higher volume of advanced rating requests. The 2023 budget anticipates volumes to remain relatively consistent and includes price adjustments ranging from \$25 to \$500 for certain designations. The SVO pricing adjustments represent a continued effort to keep fees aligned with the effort expended to perform ratings analysis and the increasing cost of doing business.

Capital Markets and Investment Analysis revenues include (1) \$9.0 million for securities designated by the SVO (as illustrated in Exhibit R4-One); (2) \$455,000 for the processing of subsidiary valuation filings; (3) \$910,750 for advanced rating services; (4) \$159,600 in services provided to banks and financial institutions that wish to be placed on the NAIC List of Qualified U.S. Financial Institutions; (5) \$96,075 in service fees for the review of money market funds; (6) \$351,100 in service fees for the review of exchange traded funds; (7) \$25,000 in service fees for the review of working capital financial investments; (8) \$27,350 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) \$47,450 in service fees for the review of counterparty derivatives; (10) \$695,600 in private letter ruling fees; (11) \$232,500 for the right for redistributors to use SVO exchange traded fund designations; and (12) \$10,950 in appeals fees.

(2) Structured Securities revenues are generated from the sale of modeled residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by insurance companies 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 slight projected over performance for 2022 is based on an increase in advanced rating services. The 2023 budget anticipates an increase in the number of advanced rating requests. The 2023 price per security remains at \$75 for RMBS and \$105 for CMBS.

(3) The Automated Valuation Service (AVS+) is the NAIC's electronic system for the delivery of security designations assigned by the SVO. The AVS+ system is utilized by companies when preparing their Schedule D filings. Fees are based on the value of assets held in a company's portfolio. Projections for 2022 reflect an increase in the actual number of subscriptions for this service. This increase is carried into the 2023 budget with the incorporation of a few additional subscriptions.

Securities Designated by the Securities Valuation Office

Product Description	2022 Filing Fee	2023 Filing Fee	2023 Budgeted Volumes	2023 Budgeted Revenue
Corporates				
Regulatory Transactions - Initial	\$5,000	\$5,000	7	\$35,000
Regulatory Transactions - Annual	\$10,000	\$10,000	2	20,000
Corporate A/U Rated	\$350	\$375	37	13,875
Corporate Initial Issuer Not in VOS	\$5,000	\$5,000	221	1,105,000
Corporate Initial Issuer Not in VOS Foreign	\$5,500	\$6,000	54	324,000
Corporate Annual/Initial Reinstatement	\$5,000	\$5,000	3	15,000
Corporate A/U Not Rated	\$1,725	\$1,800	847	1,524,600
Corporate A/U Not Rated Foreign	\$1,850	\$2,000	296	592,000
Corporate Initial Not Rated	\$1,725	\$1,800	137	246,600
Corporate Initial Not Rated Foreign	\$1,850	\$2,000	32	64,000
Corporate Initial Expired Info Request	\$350	\$375	29	10,875
Corporate Annual Expired Info Request	\$350	\$375	9	3,375
Corporate Rejected Filing	\$350	\$375	155	58,125
Corporate Non-Billable Filing	\$0	\$0	37	0
Corporate A/U Issuer CRP Rated	\$575	\$625	598	373,750
Corporate A/U Issuer Rated Add Issue	\$350	\$375	3,200	1,200,000
Corporate Initial Issuer CRP Rated	\$1,725	\$1,800	144	259,200
Corporate Initial Issuer Rated Add Issue	\$1,725	\$1,800	299	538,200
Corporate Material Change	\$500	\$500	3	1,500
Corporate Renumbering Request	\$0	\$0	70	0
Corp Initial Complex Credit Not in VOS	\$7,500	\$7,500	5	37,500
Corp Initial Defeased	\$1,350	\$1,400	1	1,400
SCH BA Initial Rated	\$350	\$375	1	375
Schedule BA Initial Not in VOS	\$5,000	\$5,000	3	15,000
Schedule BA Annual Rated	\$350	\$375	6	2,250
Schedule BA Annual VOS Not Rated	\$1,725	\$1,800	20	36,000
Schedule BA A/U Issuer CRP Rated	\$575	\$625	5	3,125
Schedule BA A/U Issuer Rated Add Issue	\$350	\$375	5	1,875
Schedule BA Rejected Filings	\$350	\$375	4	1,500
SCH BA Non-Billable Filing	\$0	\$0	1	0
Municipals				
Municipal A/U Rated	\$350	\$375	1	375
Municipal Initial Issuer Not in VOS	\$5,000	\$5,000	3	15,000
Municipal Annual/Initial Reinstatement	\$5,000	\$5,000	2	10,000
Municipal A/R VOS Not Rated	\$1,725	\$1,800	38	68,400
Municipal Initial Not Rated	\$1,725	\$1,800	2	3,600
Municipal Initial Expired Info Request	\$350	\$375	14	5,250
Municipal A/R Issuer CRP Rated	\$575	\$625	31	19,375
Municipal Initial Issuer CRP Rated	\$1,725	\$1,800	4	7,200
Municipal Initial Issuer Rated Add Issue	\$1,725	\$1,800	1	1,800
Municipal Annual Lottery Add Issue	\$350	\$375	19	7,125
Municipal Initial Lottery	\$1,350	\$1,400	2	2,800
Municipal Annual Lottery	\$750	\$750	28	21,000
Municipal Initial Pre-Refunded	\$1,350	\$1,400	42	58,800
Municipal A/R Issuer Rated Add Issue	\$350	\$375	14	5,250
Municipal Rejected Filing	\$350	\$375	8	3,000
Muni Additional Issue Pre-Refunded	\$350	\$375	53	19,875

Securities Designated by the Securities Valuation Office

Product Description	2022 Filing Fee	2023 Filing Fee	2023 Budgeted Volumes	2023 Budgeted Revenue
Structured				
Structured CTL Annual Rated	\$350	\$375	1,001	375,375
Structured CTL Annual Not Rated	\$1,725	\$1,800	12	21,600
Structured Initial Rated	\$350	\$375	20	7,500
Structured A/U Rated	\$350	\$375	75	28,125
Structured Replication A/U	\$350	\$375	794	297,750
Military Housing Bonds Annual	\$1,725	\$1,800	30	54,000
Structured Initial Expired Info Request	\$350	\$375	11	4,125
Structured Non-Billable Filing	\$0	\$0	8	0
Structured CTL Bond Initial	\$1,725	\$1,800	36	64,800
Structured CTL Lease Initial	\$2,575	\$2,575	70	180,250
Structured GLF Initial Not Rated	\$7,500	\$7,500	6	45,000
Structured A/U Not Rated	\$1,725	\$1,800	127	228,600
Structured Replication Initial	\$1,725	\$1,800	290	522,000
Structured Replication Collateral	\$350	\$375	174	65,250
Structured Annual Structured Settlement	\$575	\$600	62	37,200
Structured Rejected Filing	\$350	\$375	45	16,875
Structured Material Change	\$500	\$525	1	525
Structured Annual Structured Settlement Add Issue	\$350	\$375	875	328,125
				<u><u>\$9,010,075</u></u>

BUDGET ITEM: Transaction Filing Fees

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
SERFF Fees (1)	\$5,577,323	\$3,994,925	\$9,202,697	\$9,192,658	\$10,759,312	\$1,566,654	17.0%
SERFF Data Hosting	1,689,765	853,465	1,706,930	1,741,823	1,716,652	(25,171)	-1.4%
OPT <i>ins</i> Fees (2)	1,916,839	1,303,767	1,939,019	1,899,994	2,032,299	132,305	7.0%
SBS Fees (3)	4,575,726	2,501,830	4,986,181	5,316,251	5,248,168	(68,083)	-1.3%
Experience Data Fee (4)					1,000,000	1,000,000	
IID Fees (5)	913,953	825,106	1,008,298	972,864	967,802	(5,062)	-0.5%
Total	<u>\$14,673,606</u>	<u>\$9,479,093</u>	<u>\$18,843,125</u>	<u>\$19,123,590</u>	<u>\$21,724,233</u>	<u>\$2,600,643</u>	13.6%

(1) SERFF is licensed and used by 53 jurisdictions and over 5,000 insurance companies, third-party filers, rating organizations, and other companies. SERFF represents a key NAIC product in the modernization and efficiency of the state-based insurance regulatory system. Most jurisdictions receive more than 90% of their filings in an electronic format via SERFF, allowing faster 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. The 2023 budget for SERFF fees is based on the volume of transactions projected for 2023 and includes a \$0.61 price increase in the SERFF filing fee across all rate tiers related to the SERFF Modernization project.

Also included in the SERFF revenue line is \$913,800 for Integration Expansion license fees and a \$25,000 annual license fee from the Interstate Insurance Product Regulation Commission (Insurance Compact). Under the NAIC/Insurance Compact license and services agreement, the Insurance Compact pays a license fee to receive general support of the SERFF system and up to 250 development hours each year to make modifications to SERFF in order to accommodate Insurance Compact filings and the overall expansion/enhancements of Insurance Compact product filing operations. Integration Expansion license fees are budgeted to increase based on an increase in the number of companies licensed and a 3% annual increase in fees.

(2) The NAIC's online premium tax submission and payment system (OPT *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 of \$15 or less. OPT *ins*, with 29 participating jurisdictions, represents another NAIC initiative to modernize and improve the efficiency of the state-based insurance regulatory system. Companies experience cost savings and efficiency through electronic submission of premium tax and surplus lines returns and electronic payment of quarterly and annual premium taxes. Projections for 2022 and the 2023 budget show continued growth in the use of these services. The minimum fee for an OPT *ins* transaction has been increased to \$2.50 per transaction.

(3) SBS provides a comprehensive web-based application for use by regulators in support of all state-based insurance regulatory functions. SBS is currently in service in 33 jurisdictions, with one in process 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 insurance regulators experience significant cost savings and efficiency by automation of the insurance regulatory processes and transactions. The value of SBS services to the industry is significant in terms of cost savings to insurers, producers, and providers 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 insurance regulators and the insurance industry. Three budgeted implementations in 2022 have been reprioritized, creating a budget shortfall of \$312,600. The 2023 budget includes \$228,600 in additional revenue from existing jurisdictions and \$99,700 in additional revenue from jurisdictions implemented in 2022. These increases are partially offset by a slight decrease in the number of expected transactions in existing jurisdictions.

BUDGET ITEM: Transaction Filing Fees (continued)

- (4) In 2023, the NAIC will charge a fee of \$10,000 each to the 100 companies who are anticipated to submit a filing under VM-50, Experience Reporting Requirements and VM-51, Experience Reporting Formats of the *Valuation Manual*. As detailed in Fiscal Impact 4-2023 Revenue Enhancements, this data collection process involves a significant time commitment from NAIC actuarial and other resources. This fee is designed to recoup a portion of those costs.
- (5) IID revenues are generated from processing initial applications and annual update financial filings from companies listed in the Quarterly Listing of Alien Insurers. Companies benefit from this listing in their ability to conduct business in jurisdictions relying on the IID and Quarterly Listing of Alien Insurers. The 2023 budget is based on 176 filings from companies and Lloyd's Syndicates, 10 new applications, and two late fees. The IID expects to receive fewer applications in 2023 than in the previous year.

BUDGET ITEM: National and Major Meetings

Item Description: Fees received from attendees at NAIC National Meetings; Insurance Summit; International Insurance Forum; NAIC Diversity, Equity, and Inclusion (DE&I) Conference; and NAIC sponsored International Association of Insurance Supervisors (IAIS) Global Seminar.

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
National Meeting Registration Fees (1)	\$1,142,331	\$606,209	\$1,986,776	\$2,282,107	\$2,579,593	\$297,486	13.0%
Insurance Summit (2)	78,100	26,000	141,000	320,625	285,725	(34,900)	-10.9%
International Insurance Forum (3)	21,800	59,250	59,250	78,400	71,000	(7,400)	-9.4%
IAIS Global Seminar (4)					124,800	124,800	#DIV/0!
	<u>\$1,242,231</u>	<u>\$691,459</u>	<u>\$2,187,026</u>	<u>\$2,681,132</u>	<u>\$3,061,118</u>	<u>\$379,986</u>	14.2%

- (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. The under budget variance in 2022 is the result of lower than anticipated registration for most national meetings and the Insurance Summit. Registrations have been slow to return to pre-pandemic levels. The 2023 budget includes a \$50 increase in the advanced and 30 days prior registration fees and a \$150 increase in the virtual only registration fee. These increases are necessary to cover the increase in costs related to the production of a national meeting without reducing the services provided. The number of registrations budgeted for 2023 national meetings are based on location and include a virtual attendance option.
- (2) Revenue from the NAIC Insurance Summit is generated by registration fees for participants and sponsorship fees for exhibitors. Registrations and sponsorships for this event are slow to recover following the pandemic. Increased interest in this program is expect for the coming year.
- (3) The 2021 International Insurance Forum was converted to a virtual format in response to the COVID-19 pandemic. This event returned to an in-person event in 2022. Registrations for this in-person event are expected to return to historical norms in 2023.
- (4) In 2023, the NAIC will serve as host for the IAIS Global Seminar in Seattle. The event is open to all attendees with payment of the registration fee. Expenses for this event appear throughout the NAIC budget. However, \$601,400 of the total \$669,100 budget appears in Commissioner Travel (see Footnote E8a) and National and Major Events (see Footnote E14). Members of the IAIS voluntarily host events in support of the organization. The last event hosted by the NAIC was the IAIS 2012 Annual Conference.

National Meeting Registrations

	Louisville, KY			Seattle, WA		Orlando, FL		Total	
	Fee	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
Advance Registration	\$825	726	\$598,950	777	\$641,025	833	\$687,225	2,336	\$1,927,200
Registration after 30 Days Prior	\$925	98	90,650	105	97,125	113	104,525	316	292,300
Virtual Only Registration	\$825	127	104,775	137	113,025	146	120,450	410	338,250
First Time, Local Registrants	\$488	29	14,152	31	15,128	33	16,104	93	45,384
Subtotal		980	808,527	1,050	866,303	1,125	928,304	3,155	2,603,134
Cancellation Refunds (in person and virtual)	\$413	19	7,847	19	7,847	19	7,847	57	23,541
Total Projected Paid Attendance and Revenues		961	\$800,680	1,031	\$858,456	1,106	\$920,457	3,098	\$2,579,593
Total Projected Registrations (Paid and Unpaid)		2,307		2,500		2,675		7,482	

2023 attendance projections were determined by taking into consideration location and past attendance.

Prior Year Paid Attendance Statistics:	Spring	Summer	Fall
2022	816 Kansas City	883 Portland	Tampa
2021	509 Virtual	528 Columbus	766 San Diego
2020	Cancelled Phoenix	807 Virtual	644 Virtual
2019	1,016 Orlando	1,071 New York	1,127 Austin
2018	985 Milwaukee	1,003 Boston	1,038 San Francisco
2017	1,001 Denver	1,100 Philadelphia	507 Honolulu
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.

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education and training programs.

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Education and Training (1)	\$323,310	\$206,890	\$469,764	\$410,940	\$363,893	(\$47,047)	-11.5%

(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. The 2022 projection assumes a significant increase in the number of registrants in the Own Risk and Solvency Assessment (ORSA) webinar related to changes in the NAIC ORSA Guidance Manual for 2022. Registrations for this course are expected to decline following expanded training in 2022.

BUDGET ITEM: Administrative Services and License Fees

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
License Fees (1)	\$23,492,896	\$12,513,692	\$24,880,074	\$22,805,625	\$25,795,583	\$2,989,958	13.1%
Administrative Service/System Usage Fees (2)	2,523,923	1,244,500	2,731,594	2,561,028	2,683,269	122,241	4.8%
Total	\$26,016,819	\$13,758,192	\$27,611,668	\$25,366,653	\$28,478,852	\$3,112,199	12.3%

Administrative services and license fees are derived from agreements between the NAIC and NIPR and the NAIC and the Insurance Compact. The license and services agreement between NAIC and NIPR includes license fees and administrative services fees and began on January 1, 2018, for a five-year period. The license and services agreement between the NAIC and the Insurance Compact began June 1, 2007, and expired December 31, 2011. This agreement continues to be renewed for one-year periods, with the most current expiring on December 31, 2022.

- (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 NAIC's producer data. The 2022 projection and 2023 budget, as provided by NIPR, are based on strong sales of Producer Database and Gateway products. The 2023 budget assumes a continued increase in activity. This agreement is currently being negotiated and the 2023 budget assumes the percentage will remain at 38%.

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 an insurance department-by-insurance department basis, significantly increasing the amount of time and cost of compliance. The NAIC believes this illustrates tremendous value and cost savings to insurers managing the cost of compliance. Further, NIPR's products and services have been embedded into the automated workflow processes of many insurance carriers. 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 obtain or renew a license in a large number of non-resident jurisdictions is able to leverage NIPR's non-resident licensing or non-resident renewal applications to submit one electronic, uniform application for each of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands, and receive the approval or declination of the application generally within 48 hours. NIPR also provides electronic processing for users to obtain or renew resident licenses and adjuster licenses for most jurisdictions. Absent NIPR's web-based option, the licensee would be required to submit paper applications by mail to each jurisdiction. Value propositions include (1) lower cost to the producer and the insurance industry to submit the uniform application through NIPR's system compared to the cost of (i) printed mailings and (ii) the potential cost of manually preparing multiple required forms in cases where the uniform application is not accepted and (2) reduced administrative cost to the producer and the insurance industry in monitoring the status of paper applications versus receiving the electronic notification of the status.

The current license and services agreement with the Insurance Compact calls for an adjustable administrative fee of 7.5% of revenues in excess of expenses, measured in \$25,000 increments. The 2022 projection for this fee is \$5,625 and the 2023 budget is \$16,875, based on earnings projections provided by the Insurance Compact.

- (2) Administrative services fees includes the actual cost of services provided to NIPR and a flat fee of \$125,000 for services provided to the Insurance Compact. These services include administrative support services, facilities, and equipment provided by the NAIC. The 2022 projections include an increased cloud run costs experienced in early 2022 that will continue into 2023 but at a lower amount.

BUDGET ITEM: Other

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Other (1)		\$49,900	\$65,500	\$58,360	\$46,400	(\$11,960)	-20.5%

(1) The 2023 budget includes (1) \$15,000 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; (2) \$5,400 for rebates related to the use of purchasing cards; and (3) \$26,000 for software maintenance fees. The 2022 projection includes an unclaimed property payment that is not expected to recur in 2023.

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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Salaries-Existing Employees (1)	\$57,949,968	\$29,685,047	\$60,965,234	\$61,979,587	\$65,740,416	\$3,760,829	6.1%
Salaries-New Employees (2)					841,058	841,058	100.0%
Overtime (3)	112,657	53,106	100,410	74,085	81,688	7,603	10.3%
Total	<u>\$58,062,625</u>	<u>\$29,738,153</u>	<u>\$61,065,644</u>	<u>\$62,053,672</u>	<u>\$66,663,162</u>	<u>\$4,609,490</u>	7.4%

(1) The salary line includes amounts paid to employees such as wages, promotions, adjustments, accrued vacation expense (paid time off or PTO), and turnover. Overtime is budgeted separately in order to provide additional management of that expense line as it is not managed under the NAIC's salary increase process. As of September 30, 2022, the NAIC had 514.5 approved full-time equivalent (FTE) positions. The under budget variance in 2022 is related to higher turnover, as well as an increase in the use of PTO by staff. The 2023 budget assumes the continuation of increased turnover and use of PTO hours and includes an increase in the salary budget for the conversion of positions added in mid-2022 to a full year.

The 2023 budget also includes annual increases for all NAIC staff. The NAIC uses local and national salary surveys such as the William Mercer Compensation Planning Survey, the Hay Group Survey, the World at Work Salary Budget Survey, and CBIZ when assessing potential increases for the coming year. Included in this assessment is NAIC's ability to attract and retain qualified staff members in its highly competitive technical and professional environment while being mindful of regulatory budget challenges. The majority of the NAIC's staff are 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. As a result of the recent drop in the labor force there are currently two jobs open for every unemployed person. Fewer participants in the labor market has generated higher competition for talent and accelerated wage growth. This higher competition and the specialized nature of many of the NAIC positions makes it difficult to attract and retain qualified staff members. As a result, the NAIC has experienced increased turnover and extreme difficulties in locating and retaining qualified candidates.

(2) The 2023 budget includes requests for eight full-time employees and the conversion of one part-time employee to full-time in the areas of reporting and analysis, people operations, technical support, and product support. Additional details regarding these resource additions are included in Fiscal 1-SERFF Modernization-2023 Transition Stages and Fiscal 5-2023 Staffing Requests. These requests increase NAIC headcount to 523.

(3) The overtime budget reflects the amount of overtime required to support NAIC functions during the year. Examples include (1) additional hours worked by technical staff to support a hybrid work environment; (2) additional hours worked by desktop computer technicians during software rollouts and outages; (3) travel time and additional hours for administrative staff who support 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 to support internal business operations. The increase in the 2023 budget is due to increased business operations needs.

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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
National Meetings and Major Meetings (1)	\$32,121	\$21,975	\$73,633	\$73,327	\$93,149	\$19,822	27.0%
Interns (2)	343,512	188,730	373,092	555,535	450,000	(105,535)	-19.0%
Other (3)	391,592	143,308	407,190	375,598	666,243	290,645	77.4%
Total	<u>\$767,225</u>	<u>\$354,014</u>	<u>\$853,916</u>	<u>\$1,004,460</u>	<u>\$1,209,392</u>	<u>\$204,932</u>	20.4%

- (1) Temporary resources for national meetings and the Insurance Summit are used for security and door monitoring purposes. Hotel configurations and meeting schedules dictate the amount of temporary services required at each national meeting. The 2023 budget is based on rates for national meeting locations during 2023.
- (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 People Operations and Engagement, Diversity, Equity & Inclusion (DE&I), and Benefits & Facilities Divisions; support for the NAIC's digital library collection; statistical research; computer operations support; and legal research. The use of interns allows the NAIC to find and attract temporary resources in a competitive marketplace. Additionally, this program is very successful for the NAIC with respect to identifying and retaining qualified candidates for full-time positions. Projections for the current year reflect difficulty the NAIC is having in finding individuals interested in short-term employment. The reduction in the budget for 2023 recognizes this difficulty and the need to secure necessary resources for short periods of time by other means.
- (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. Since 2021, the need for these resources continues to be greater than expected. The majority of resources budgeted in this area includes post-doctorial resources in the Center for Insurance Policy & Research (CIPR); recruiting resources to seek out and retain the unique skill sets needed by the NAIC; and assistance with employee benefit related functions. The need for these highly skilled individuals will increase in 2023, but is partially offset by a decrease in intern expense due a shift in the classification of resources used and the addition of full-time employees as described in Fiscal 5-2023 Staffing Requests.

BUDGET ITEM: Payroll Taxes

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
FICA (1)	\$4,164,555	\$2,406,117	\$4,380,189	\$4,444,053	\$4,893,949	\$449,896	10.1%
Unemployment Compensation (2)	88,846	41,300	59,186	31,936	68,859	36,923	115.6%
Total	\$4,253,401	\$2,447,418	\$4,439,376	\$4,475,989	\$4,962,808	\$486,819	10.9%

(1) FICA expense is below budget in 2022 due to lower than expected salary expense. The increase in budgeted FICA for 2023 is related to the increase in the 2023 salary budget as described in the salary section of this budget (see Footnote E1); the annual expected increase in the salary limit subject to FICA; and the addition of staffing resources included in Fiscal 1-SERFF Modernization-2023 Transition Stages and Fiscal 5-2023 Staffing Requests.

(2) Unemployment compensation will exceed budget in 2022 due to higher than expected rates during 2022. The 2023 budget incorporates this increase as well as an increase in the number of staff, 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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Retirement Benefits (1)	\$5,683,631	\$2,732,930	\$5,453,858	\$5,819,060	\$8,742,999	\$2,923,939	50.2%
Health Benefits (2)	5,305,149	2,679,430	5,594,334	5,563,543	5,812,506	248,963	4.5%
Group Life and Disability (3)	376,147	152,318	302,518	287,122	341,637	54,515	19.0%
Employee Relations (4)	942,152	476,365	973,509	915,125	910,850	(4,275)	-0.5%
Total	\$12,307,079	\$6,041,044	\$12,324,220	\$12,584,850	\$15,807,992	\$3,223,142	25.6%

(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 \$4.6 million in 2023. This expense is budgeted to increase \$430,000 from projected 2022 expenses and \$374,000 from the 2022 budget based on (1) current staff contribution rates, (2) increased salary base in 2023, and (3) change in vesting to eliminate one-year waiting period and reduce the vesting period from five to three years.

Also included in this line is the NAIC's defined benefit plan (DBP). The Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years beginning with the December 31, 2017, measurement date. This approach results in projected expense for 2022 of \$1.2 million and budgeted 2023 expense of \$4.1 million. The increase in expense budgeted for 2023 is related to the change in financial market conditions through August 2022 and an increase in the discount rate. NAIC management works closely with the 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) Health benefits under the NAIC's self-insured plan are based on the number of employees enrolled and their benefit selections. As with any self-insured plan, actual costs vary annually based on employee claims. Projected expense for 2022 is based on actual claims through mid-2022 and prior year experiences. The 2023 budget for health insurance (1) assumes claims are slightly higher than 2022 projections; (2) includes an increase in the cost of prescription drug coverage; and (3) includes health coverage for the addition staff included in Fiscal 1-SERFF Modernization-2023 Transition Stages and Fiscal 5-2023 Staffing Requests. These increases are partially offset by a slight decrease in the cost for stop loss coverage. The NAIC currently has several programs in place to assist in reducing the number and severity of health care claims. Examples of these programs are employee health awareness programs, Wellness Days, and Corporate Challenge participation.

(3) The renewal rate for coverage during 2021 was significantly higher than expected. As a result of this increase the NAIC contracted with a new vendor at a lower rate for coverage in 2022. The increase for 2023 is related to increasing coverage rates.

(4) 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. These events serve as a conduit for employee engagement and comradery which are of vital importance in today's remote work environment. The 2022 projection includes an unbudgeted cost that is not expected to recur in 2023.

BUDGET ITEM: Employee Development

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$34,216	\$12,886	\$42,413	\$67,164	\$69,813	\$2,649	3.9%
Professional Training (2)	456,211	271,401	685,595	973,312	727,940	(245,372)	-25.2%
Professional Association Dues-Staff (3)	75,806	70,356	108,408	103,859	107,110	3,251	3.1%
Total	\$566,233	\$354,643	\$836,416	\$1,144,335	\$904,863	(\$239,472)	-20.9%

- (1) Education reimbursements carry an annual cap per employee, are only available to those employees who are actively pursuing college degrees or professional designations, and only apply toward tuition for courses that specifically relate to and enhance the employee's job knowledge and/or skills for the benefit of the NAIC. The NAIC is committed to the development of employee skills to further the work of insurance regulation and the NAIC. Expenses vary from year to year based on employee enrollment in qualifying courses and programs.
- (2) Professional training represents registration fees for professional seminars, trade workshops, and education programs attended by NAIC employees who require specialized training or are required to receive continuing education to maintain professional licenses or designations. This category also includes NAIC All Staff Training Event expenses on topics such as cybersecurity, management, and leadership. The under budget spending in 2022 is the result of staff working remotely and some trainings were offered at greatly reduced prices to generate renewed interest in trainings offered by the vendor. The budgeted reduction in this line for 2023 represents the completion of several specialized trainings during 2022, including the initial year of training on the new enterprise resource package (ERP), DE&I Council certifications, and training on new data governance tools deployed in 2022.
- (3) The budget includes employee memberships in various professional associations, such as the American Society of Association Executives, American Bar Association, local and state bar associations, the American Institute of Certified Public Accountants, and state CPA associations, among others.

BUDGET ITEM: Professional Services

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Legal (1)	\$143,776	\$140,267	\$312,455	\$300,000	\$300,000		0.0%
Accreditation Team (2)	794,565	662,728	1,191,170	1,190,299	1,296,640	\$106,341	8.9%
Royalties (3)	2,113,972	24,284	1,789,466	1,806,666	1,787,940	(18,726)	-1.0%
Benefits (4)	216,223	112,060	207,060	175,961	195,900	19,939	11.3%
Audit (5)	385,691	187,150	429,240	415,907	447,731	31,824	7.7%
Consumer Awareness (6)	520,675	197,321	477,151	600,000	450,000	(150,000)	-25.0%
Implementation/Upgrade (7)	5,775,001	2,502,262	5,980,391	7,127,221	4,920,065	(2,207,156)	-31.0%
Data Modeling (8)	2,950,000		2,950,000	2,950,000	2,950,000		0.0%
Other Professional Services (9)	2,461,544	1,769,472	3,924,163	3,347,413	3,978,809	631,397	18.9%
Total	\$15,361,447	\$5,595,543	\$17,261,094	\$17,913,467	\$16,327,086	(\$1,586,381)	-8.9%

- (1) The legal budget covers potential engagement of outside legal firms to assist the Legal Division in (1) needed expertise to assist in complex and specialized regulatory issues and projects; (2) labor and employment issues; (3) corporate matters relating to contracts, tax, and benefits; and (4) amicus briefs filed at the request of NAIC members.
- (2) The NAIC contracts with independent teams to conduct reviews of insurance departments seeking accreditation under the NAIC Financial Regulation Standards and Accreditation program. The budget is based on the number and type of examinations to be conducted. The 2023 budget assumes 11 jurisdictions undergoing full reviews, three jurisdictions undergoing a re-review, and 11 jurisdictions undergoing pre-review. The 2022 budget included 11 full reviews, four re-reviews, and 11 pre-reviews. This line also includes training for the independent team members to discuss program guidelines, standards, review team practices, changes to the program, and NAIC tools used by members to comply with the program. In-person examinations resumed in mid-2021 after a period of virtual examinations due to limitations on travel and face-to-face meetings as a result of the COVID-19 pandemic.
- (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 (\$45,440).
- (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; and (3) benefit renewals. The majority of the increase in 2022, which continues into 2023, is related to administration of retirement plans.
- (5) Audit fees include amounts paid to independent accounting, accrediting, and information technology firms primarily for (1) annual financial examination (\$55,470); (2) Statement on Standards for Attestation Engagements (SSAE) No. 18, Reporting on Controls at a Service Organization (SOC) engagements, including SOC 1 and SOC 2 audits (\$194,000); (3) cybersecurity audits (\$178,200); and (4) website accessibility audits (\$20,000). Financial examination fees will increase in 2022 and beyond due to the rebidding of these services and subsequent hiring of a new firm. Website accessibility audits are scheduled to increase in 2023.
- (6) The 2023 budget for consumer awareness contains \$350,000 in public relations consulting services to support the NAIC's core consumer awareness and education media campaign. It also includes \$100,000 for the NAIC Educational Outreach Program, a continuation of the program designed to educate domestic and international policymakers about the state-based regulatory system in the U.S. In 2022 the NAIC began using more internal resources to support these programs, reducing reliance on external firms.

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 2023 budget includes (1) \$296,000 to upgrade the web platform; (2) \$346,500 for further work on Market Analysis Review Systems (MARS); (3) \$1.6 million in staff augmentation and guidance as the NAIC continues work on several high-profile implementations; (4) \$298,500 for process improvements and automation to NAIC back-office systems; (5) \$476,700 for security-related implementations; (6) \$430,000 for enhancements to the system used by the Capital Markets and Investment Analysis Division; (7) \$502,600 to continue work on the Financial Analysis Tools Redesign; (8) \$150,500 additional work on Principle-Based Reserving (PBR) Variable Annuities; (9) \$191,200 for amortization of Cloud conversion costs; and (10) \$86,400 for enhancements to the OPTins application. The 2023 budget also includes consulting dollars for Fiscals 2 and 3 - Financial Data Repository (FDR) Modernization Phase I (\$380,000) and Regulatory Information Retrieval System (RIRS) Coding Project (\$200,000). The under budget variance in 2022 is driven by hiring delays for consultants for the several major projects. The budgeted reduction in 2023 is primarily due to the completion of projects, most notable SBS implementations (\$1.7 million).
- (8) Data modeling service fees are fees paid for the modeling of CMBS and RMBS securities owned by insurers and is based on the most current contract.
- (9) Other professional services include (1) \$47,000 for the NAIC's commercial insurance brokerage fees; (2) \$250,800 for expenses related to registration software license fees, transportation, facilities, speakers, and photographers for National and Major Meetings; (3) \$110,000 in banking fees; (4) \$186,200 in fees for the administration, lease, and oversight of the co-location facility and services; (5) \$986,600 in cloud management services; (6) \$196,000 in news and video production services; (7) \$100,000 for cybersecurity services; (8) \$133,900 for technology information subscriptions; (9) \$239,600 in consulting services for the NAIC's DE&I and leadership programs; (10) \$544,250 for data analysis; (11) \$650,650 in staff augmentation services to fill temporary vacancies in critical but difficult to fill positions; (12) \$395,350 for various activities related to the Catastrophe (CAT) Modeling Center for Excellence; and (13) \$138,700 for various outside services used throughout the association. The 2022 over budget projection in other professional services is due primarily to an increase in cloud management services as applications reached full capacity within their new cloud-based applications and additional resources needed to address production, migration, and remediation activities. The increase in this expense line in 2023 is related to the continued need for additional cloud management services, an additional Cyber Security Tabletop session, and CAT Modeling expenses.

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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Database Network (1)	\$691,890	\$483,143	\$1,016,025	\$898,400	\$992,214	\$93,815	10.4%
Cloud Services (2)	2,319,438	1,888,004	3,442,867	2,309,947	3,848,668	1,538,721	66.6%
Securities Valuation Services (3)	2,474,751	1,306,334	2,640,726	2,669,840	2,802,199	132,359	5.0%
Credit Card Fees (4)	389,446	199,348	406,268	399,140	444,208	45,069	11.3%
Other (5)	575,856	155,683	528,017	1,710,593	357,329	(1,353,264)	-79.1%
Total	\$6,451,381	\$4,032,512	\$8,033,904	\$7,987,919	\$8,444,618	\$456,699	5.7%

- (1) Database Network expenses budgeted in 2023 include (1) internet, data connectivity, and network synchronization between the NAIC's co-location site and all three NAIC offices; (2) New York and Washington, D.C. office circuits and backups to the Kansas City office; (3) wireless devices; and (4) wireless network and Wi-Fi services at national meetings, NAIC events, and interim meetings. The 2022 projection includes an average of \$87,000 for additional connectivity costs related to the conversion of systems to the Cloud and \$31,000 related to the inclusion of virtual components to most in-person NAIC events. The increase in the budget for 2023 incorporates the additional Cloud costs experienced in 2022, partially offset by a slight decrease in the cost of connectivity in 2023 driven by the location of national meetings and other events.
- (2) In order to closely monitor run costs related to cloud computing, service costs are tracked separately from infrastructure costs. The over budget variance in 2022 represents additional costs to run NAIC systems in the Cloud. The 2023 budget incorporates increased costs experienced in 2022, as well as conversion of a few back office systems to cloud-based applications. As additional software is deployed the cost of processing in the Cloud will increase. However, the NAIC utilizes a third-party service to ensure performance optimization to minimize costs.
- (3) Securities Valuation Services represent the purchase of NRSRO ratings and security data feeds, as well as access to credit reports, industry/sector analysis, peer searches, and analysis methodologies. This information is used to produce NAIC designations for NRSRO-rated securities, including municipal bond pricing, corporate bond pricing, Bloomberg, and Moody's. The 2023 budget includes normal annual increases across all platforms.
- (4) Credit card fees include charges from vendors and banks to settle NAIC customer credit card transactions and deposit funds in the NAIC bank account. The increase in budget for 2023 is related to the increase in budgeted revenues.
- (5) Other computer services included in the 2023 budget represent: (1) fees for services used for the online learning platform (\$190,500); (2) fees for processing online registrations for national meetings and other NAIC events (\$23,900) and education programs (\$21,200); (3) fees for powering the national meeting and Insurance Summit mobile agenda application (\$23,450); (4) employee-based services (\$69,260); (5) applications used to support member initiatives (\$20,700); and (6) technology to scan attendee badges for professional education reporting (\$7,650). The under budget projection for 2022 is related to the ability to use applications recently deployed in other areas of the NAIC to convert data related to the SERFF Modernization project. The decrease in the budget for 2023 is related to a decrease in services used due to efficiency gains and the completion of the data conversion in 2022.

BUDGET ITEM: Travel

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$549,351	\$423,448	\$1,280,687	\$1,541,283	\$1,788,633	\$247,351	16.0%
Non-Staff/Non-Regulator Travel (2)	43,837	10,866	102,686	119,580	106,850	(12,730)	-10.6%
Commissioner/Regulator Travel (3)	719,003	788,713	2,094,063	2,153,603	2,619,863	466,260	21.7%
International Travel (4)	56,387	186,932	513,088	791,277	840,884	49,607	6.3%
Regulatory Disaster Assistance Travel (5)		8,812	50,000	50,000	60,000	10,000	20.0%
Consumer Funding (6)	40,188	40,271	130,271	140,000	140,567	567	0.4%
Total	\$1,408,766	\$1,459,042	\$4,170,796	\$4,795,742	\$5,556,797	\$761,055	15.9%

The cancellation or change in format to virtual of NAIC meetings and meetings by other organizations greatly reduced domestic and international travel during 2021. Projections for 2022 and the 2023 budget represent the return to in-person meetings in early 2022, with domestic travel returning at a faster pace than international. While the number of trips has not yet returned to pre-pandemic levels, the cost of each trip has increased significantly.

- (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. In 2022, most events contained a virtual component, generating an under budget variance for the year. The increase in 2023 is related to a full year of travel events, and incorporates the increased cost of travel in the current economy.
- (2) The 2023 budget for non-staff/non-regulator travel primarily includes (1) \$75,600 for travel expenses for state legislators to attend a 2023 NAIC national meeting; (2) \$7,550 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) Commissioner travel includes (1) \$375,000 in domestic travel for commissioners and senior regulators to participate in such events as Congressional testimony, trade association meetings, and speaking engagements for the purpose of conducting NAIC business; (2) \$750,000 to sponsor commissioner and senior regulator travel to all 2023 NAIC national meetings; (3) \$193,250 to fund commissioner travel to the Commissioners' Conference; (4) \$18,600 to host travel to Valuation of Securities (VOS) Task Force meetings at NAIC offices; (5) \$27,000 for travel associated with support of the Financial Analysis (E) Working Group (FAWG); (6) \$452,150 to fund regulator travel to the Insurance Summit; (7) \$126,700 for commissioner travel to the annual Committee Assignment Meeting, All Commissioner DC Fly-In, and International Insurance Forum; (8) \$117,000 to fund commissioner travel to the Commissioners' Mid-Year Roundtable; (9) \$15,550 for travel associated with support of the Market Actions (D) Working Group (MAWG); (10) \$60,100 for regulator travel for Peer Review examinations; (11) \$100,000 to fund regulator travel to the SBS Summit; (12) \$75,700 for training on new SERFF functionality included in Fiscal 1-SERFF Modernization-2023 Transition Stages; (13) \$106,000 for travel to the Collaboration Forum; (14) \$92,150 for travel to the NAIC sponsored IAIS Global Seminar; and (15) \$110,650 for various other regulatory events such as the DE&I Conference and meetings at the NAIC office in Washington, D.C. The increase in the budget for 2023 is related to training on new SERFF functionality, the SBS Summit, DE&I Conference, and IAIS Global Seminar, as well as an additional \$150,000 to cover the increasing cost of commissioner and regulator travel to the three national meetings.
- (4) International travel includes \$430,000 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 cost of international travel is increasing more rapidly than domestic travel.
- (5) Projected 2022 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 2023 budget of \$60,000 is to ensure needs of this nature will be met, should they arise, in the coming year.

E8a: Travel

BUDGET ITEM: Travel (continued)

- (6) The consumer funding budget is allocated for the NAIC's funded consumer representatives to attend national meetings and pay for the NAIC Consumer Board of Trustees luncheon. The 2023 budget includes domestic and international travel, with a slight increase to cover the rising cost of travel.

BUDGET ITEM: Occupancy and Rental

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Rent (1)	\$2,764,133	\$1,412,340	\$2,811,839	\$2,810,851	\$2,807,749	(\$3,102)	-0.1%
Utilities and Parking (2)	849,369	580,212	1,107,614	1,199,535	1,180,368	(19,167)	-1.6%
Warehouse	31,778	19,029	25,233	24,125	24,125		0.0%
Equipment Rental and Maintenance (3)	660,650	301,320	603,695	668,063	552,447	(115,616)	-17.3%
National Meeting Equipment Rental (4)			31,543	19,886	54,104	34,218	172.1%
Total	\$4,323,963	\$2,319,490	\$4,579,924	\$4,722,460	\$4,618,793	(\$103,667)	-2.2%

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 February 29, 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.

- (2) Common area maintenance costs are projected to be less than budget in 2022 with the completion of the lobby area remodel.
- (3) Equipment rental includes the cost to rent and maintain copiers for the NAIC copy center and staff copy areas, certain computer equipment, and other business operational equipment. The decrease in this category in 2022 is related to the declining use of the NAIC copy center due to electronic delivery of the majority of NAIC materials and the shift to cloud-computing which eliminates the need for on-site equipment. These savings continue into 2023, with a greater impact.
- (4) The 2023 budget is based on rental equipment needs at the selected meeting locations.

BUDGET ITEM: Computer Hardware and Software Maintenance

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Hardware Maintenance (1)	\$370,451	\$155,744	\$303,045	\$333,318	\$282,859	(\$50,459)	-15.1%
Software Maintenance (2)	6,542,728	3,831,223	8,353,734	8,286,848	8,088,486	(198,362)	-2.4%
Total	<u>\$6,913,179</u>	<u>\$3,986,967</u>	<u>\$8,656,779</u>	<u>\$8,620,166</u>	<u>\$8,371,345</u>	<u>(\$248,821)</u>	-2.9%

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 and support agreements for heavily used software products.

- (1) Hardware maintenance includes fees on hardware that resides in the NAIC data center, as well as maintenance on portable computer devices such as laptops. Maintenance agreements for storage devices have decreased with additional applications moving to the Cloud.
- (2) Software maintenance includes subscription fees to use software products that are essential to NAIC's role in support of regulatory activities. Costs in this area have increased as all but a small portion of NAIC applications are cloud-based. The 2023 budget includes annual service increases, upgrades to more robust versions of existing tools, and additional software necessary for systems and personnel to perform tasks efficiently and securely. These increases are partially offset by a reduction for licenses that have been converted to versions that are free to the NAIC as a non-profit entity (\$294,000).

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation and amortization for all capital assets owned as of June 30, 2022, projected purchases through December 31, 2022, and purchases budgeted in 2023.

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$1,417,661	\$702,747	\$1,359,472	\$1,404,701	\$1,024,226	(\$380,475)	-27.1%
Amortization (2)	2,633,774	1,318,522	2,723,321	2,709,555	3,347,261	637,706	23.5%
Total	<u>\$4,051,435</u>	<u>\$2,021,269</u>	<u>\$4,082,793</u>	<u>\$4,114,256</u>	<u>\$4,371,487</u>	<u>\$257,231</u>	6.3%

Effective January 1, 2022, the NAIC increased the capitalization threshold to \$7,500. The prior capitalization threshold of \$2,000 had been in place since 1994, when the NAIC had total expenses of \$33.2 million. With the decline in technology hardware purchases due to the transition to the Cloud for most applications, the electronic tracking of assets with a dollar value below \$7,500 serves no financial purpose. There are no changes to the useful life of capitalized assets.

- (1) Depreciation is calculated on a straight-line basis over the useful life of capital assets owned by the NAIC, which is five years for furniture and equipment and three years for computer hardware and software. The amount of depreciation expense in a given year is related to the purchase of capital assets in the current and preceding years. The purchase of equipment to reside in NAIC offices continues to decline as cloud-based technology implementations continue.
- (2) Amortization is computed on a straight-line basis for capitalized assets such as leasehold improvements and costs incurred for major computer application projects and system upgrades. The initial useful life of this class of assets is approximately 10 years, but are assigned to specific assets based on each asset's useful life. The increase in amortization in 2023 is related to a full year of amortization on Phases 1 and 2 of the SERFF Modernization project deployed in latter part of 2022 (\$199,500) and the deployment of three additional projects during 2023 - Phase I of the UCAA Redesign (\$79,000), Phase 3 of the SERFF Modernization project (\$285,000), and Human Capital portions of the ERP (\$145,620). Future releases of these applications will occur in 2024.

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

BUDGET ITEM: Depreciation and Amortization (continued)

	2023 Capital Budget	Depreciation Expense	2022 Capital Budget	2022 Capital Projection
Furniture and Equipment			\$256,000	\$195,984
Computer Hardware			213,961	49,405
Computer Software	<u>\$1,694,572</u>		<u>1,077,922</u>	<u>1,077,922</u>
Total Capital Requests	<u>\$1,694,572</u>		<u>\$1,547,883</u>	<u>\$1,323,311</u>
Depreciation on Prior Year Purchases		<u>\$1,024,226</u>		
Total Depreciation		<u>\$1,024,226</u>		
	2023 Budget	Amortization Expense	2022 Budget	2022 Projection
Leasehold Improvements				
Consulting	<u>\$9,950,281</u>		<u>\$6,682,335</u>	<u>\$6,682,335</u>
Total Requests	<u>\$9,950,281</u>		<u>\$6,682,335</u>	<u>\$6,682,335</u>
Amortization on Prior Year Expenditures		<u>\$3,347,261</u>		
Total Amortization		<u>\$3,347,261</u>		

2023 Capital Expenditures

Description	Computer Software			Consulting		
	Qty	Cost	Total	Qty	Cost	Total
UCAA Phase I Software	1	\$209,796	\$209,796			
UCAA Phase I Consulting				1	\$745,760	\$745,760
Enterprise Resource Planning Software	1	\$667,491	667,491			
Enterprise Resource Planning Consulting				1	\$3,367,417	3,367,417
SERFF Modernization - 2023 Transition Software	1	\$817,285	817,285			
SERFF Modernization - 2023 Transition Consulting				1	\$5,837,104	5,837,104
			\$1,694,572			\$9,950,281

2023 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.

Technology Trend

- **Uniform Certificate of Authority Application (UCAA) Software (\$955,556)** – Over the past few years, the NAIC has been working to redesign UCAA in a cloud-native solution to expand the number of company licensing-related applications that can be submitted electronically and implement an electronic method for biographical affidavit submissions. Capitalized costs for this project in 2023 include software (\$209,796) and consulting (\$745,760).
- **Enterprise Resource Planning (ERP) Software (\$4,034,908)** – In 2022, the NAIC began a project to convert current disparate operational applications into one cloud-based, integrated software suite to handle human capital management, accounting, financial management, payroll, procurement, and e-commerce business needs. Capitalized costs for this project in 2023 include software licenses (\$667,491) and consulting (\$3,367,417).
- **SERFF Modernization – 2023 Transition Stages (\$6,654,389)** – The NAIC began a three-year project in 2022 to modernize the SERFF platform. The project is designed to take advantage of new technological developments, particularly in the areas of document management, workflow, and artificial intelligence. The second year of this three-year project will continue modernization work and begin to move users to the new platform. Capitalized costs for this project in 2023 include software licenses and run costs (\$817,285) and consulting (\$5,837,104).

BUDGET ITEM: Operational

Item Description: Includes operational expenses for the NAIC offices including insurance, costs incurred for printing, subscription updates, marketing materials, and other publications. The branding 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, attendance at recruiting events, and branded materials distributed at NAIC events.

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Insurance (1)	\$453,183	\$251,426	\$507,820	\$532,213	\$578,542	\$46,329	8.7%
Telephone (2)	153,755	93,731	126,270	138,667	17,721	(120,945)	-87.2%
Supplies (3)	103,643	84,239	194,419	320,300	303,010	(17,290)	-5.4%
Non-Capital Equipment (4)	700,832	378,144	493,727	712,665	281,221	(431,444)	-60.5%
Mail Services (5)	94,954	65,800	142,996	131,261	148,581	17,320	13.2%
Branding (6)	59,703	58,095	181,029	192,491	279,644	87,153	45.3%
Publications Printing (7)	60,285	1,925	1,925	150		(150)	-100.0%
	<u>\$1,626,355</u>	<u>\$933,360</u>	<u>\$1,648,186</u>	<u>\$2,027,747</u>	<u>\$1,608,719</u>	<u>(\$419,028)</u>	<u>-20.7%</u>

- (1) The negotiation of insurance premiums at the May 2022 renewal date resulted in slightly lower fees than budgeted. The 2023 budget includes an increase of low double digits over existing premiums for the May 2023 renewals based on current trends.
- (2) The decrease in budgeted telephone expense for 2023 is related to the conversion of phone service to a cloud-based platform at the end of 2022.
- (3) Supplies include purchases of copy paper, common area supplies, and miscellaneous office supplies at all NAIC offices. The projection for 2022 includes a lower demand for copy paper due to the remote work environment and electronic delivery of materials at NAIC national meetings and events. The budget for 2023 incorporates the lower demand for copy paper but also includes an increase in general supplies needed to support the NAIC's remote work environment.
- (4) Non-capital equipment includes minor (non-capitalized) computer equipment purchases as well as minor office equipment and computer supplies needed to furnish staff members with the tools necessary to complete their assigned tasks. Increased spending was necessary in 2021 and early 2022 to provide staff with equipment necessary to be productive in a hybrid work environment and to furnish all three NAIC offices with equipment as a result of the pandemic. The number and amount of those expenditures decreased dramatically during 2022 and are not anticipated in the 2023 budget.
- (5) Mail services includes the cost of shipping equipment and materials to NAIC national meetings and other events and express mail services. The increase in mail services is related to the cost to ship materials to locations selected for NAIC national meetings and events.
- (6) Branding represents travel and trade show expenses related to marketing of NAIC products and services, such as SERFF, OPT^{ins}, SBS, and NAIC education programs. This line also includes expenses related to attendance at recruiting and diversity events, and branded materials distributed to staff at special events. The increase in this line for 2023 is related to the return to normal attendance at trade shows following the pandemic; the addition of several recruiting events and affinity groups to support the DE&I initiative; and staff returning to the office for organizational events.
- (7) Publications printing expense represents the cost of hard-copy 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 NAIC switched to electronic delivery of products during the pandemic, eliminating publications in hard-copy form as of January 1, 2022.

BUDGET ITEM: Library Reference Materials

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Library Reference Materials (1)	\$357,206	\$176,240	\$371,151	\$370,242	\$383,261	\$13,019	3.5%

(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. The increase in 2023 is related to annual increases in subscription rates and the addition of new digital services.

BUDGET ITEM: National and Major Meetings

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$116,054	\$61,545	\$290,477	\$321,170	\$363,410	\$42,240	13.2%
Hotel Services (2)	1,222,232	822,682	1,978,785	1,879,875	2,715,451	835,576	44.4%
Reproductions	53,637	30,537	74,656	75,100	78,824	3,724	5.0%
Audio-Visual Services (3)	1,466,612	580,883	1,663,419	1,700,769	1,872,144	171,375	10.1%
Interim Meetings (4)	273,718	164,401	476,487	663,133	652,963	(10,170)	-1.5%
Total	\$3,132,253	\$1,660,048	\$4,483,822	\$4,640,047	\$5,682,792	\$1,042,745	22.5%

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

<u>Year</u>	<u>National Meeting Locations</u>		
	<u>Spring</u>	<u>Summer</u>	<u>Fall</u>
2023	Louisville	Seattle	Orlando
2022	Kansas City	Portland	Tampa
2021	Virtual	Columbus	San Diego

- (1) Expenses for receptions 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) Commissioners' Mid-Year Roundtable; (5) Insurance Summit; (6) International Insurance Forum; and (7) IAIS Global Seminar. The 2023 budget is based on quotes for food and beverage costs for selected meeting sites. The majority of the increase in 2023 is related to costs for the IAIS Global Insurance Seminar.
- (2) Hotel services include the cost of (1) technology support; (2) electrical support; (3) regulator and staff breakfasts and lunches; (4) regulator, staff, and industry breaks; (5) transportation; and (6) other hotel charges. The over budget variance in 2022 is the result of one or two additional meals provided at national meetings and an increase in the overall cost of all food and beverage service at all NAIC events. The 2023 budget is based on quotes from host hotels and convention centers and expected number of attendees, which includes a dramatic increase in cost of food and beverage service items over recent years. A full day of meals has been added to each national meetings in 2023, as well as additional areas of service not previously provided.
- (3) 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 events, including the three national meetings, will decrease by approximately \$52,400 as quoted by service providers. The 2023 budget includes \$223,800 in audio-visual costs to host the IAIS Global Seminar.
- (4) The interim meeting budget represents costs associated with meetings on key initiatives that are not otherwise classified within the NAIC's budget. Interim meeting expenses include group meals, meeting room rental, and food and beverage. The under budget variance in 2022 is related to cancellation of events in early 2022, due to COVID-19. The 2023 budget is to cover (1) the annual DE&I Conference (\$109,300) for NAIC staff and several regulators; (2) several diversity sessions (\$93,000); (3) SBS Summit (\$197,700); (4) CIPR program at national meetings (\$79,000); and (5) IAIS meetings hosted by the NAIC (\$58,000).

BUDGET ITEM: Education and Training

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

<u>Description</u>	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Education Programs (1)	\$143,310	\$21,958	\$189,901	\$265,063	\$304,291	\$39,228	14.8%

(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 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 2022 is due to lower than expected registrations in the professional skills category, which decreased consulting fees for this program. The 2023 budget assumes a return to normal levels of training in this category and includes expenses for the biennial offering of the Regulatory Leadership Forum.

BUDGET ITEM: Grant and Zone

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	\$805,459	\$497,202	\$1,443,652	\$1,730,000	\$2,010,000	\$280,000	16.2%
Zone Scholarship Funds (2)	3,550	2,060	11,060	9,000	9,000		0.0%
Zone Technical Training (3)	28,518	160,182	485,270	304,290	444,500	140,210	46.1%
Zone Expenses (4)	240,756	55,414	427,484	362,666	321,450	(41,216)	-11.4%
Total	\$1,078,283	\$714,857	\$2,367,465	\$2,405,956	\$2,784,950	\$378,994	15.8%

During 2021, meetings were either cancelled or held virtually as a result of the COVID-19 pandemic. This eliminated the need to travel and dramatically reduced the use of grant and zone funds.

- (1) Grant funding will increase \$10,000 per member to \$30,000 per member (\$1,680,000). The first increase in this funding since 2014. As a result of travel limitations continuing through 2022, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved the carryover of up to \$20,000 in grant funds by each member into 2023. The use of this carryover in 2023 is estimated at \$280,000. Remaining grant funds will revert to the respective Zones at the end of 2022. An additional \$50,000 is budgeted to assist members with special funding needs during 2023. The 2023 budget assumes a return to in-person meetings, training, 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 2022 projection reflects the return to and increased demand for zone training events following restrictions during COVID-19. The 2023 budget assumes in-person Zone events will return to normal levels.
- (4) NAIC allocates funding to NAIC Zones annually to fund activities of the Zones. These activities include Zone conferences, Zone meetings at national meetings, and funding of member training allocations (Zone Scholarship Funds) in addition to NAIC Grant funds. NAIC funding includes (1) \$2,500 per Zone member, with a minimum of \$60,000 per Zone (\$247,500) and (2) \$2,500 per Zone members to be used by the Zones to provide additional training opportunities for their members (\$140,000). The 2022 projection represents the return to zone meetings following restrictions during COVID-19. The 2023 budget assumes in-person Zone events will return to normal levels.

BUDGET ITEM: Other

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

Description	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Professional Association Dues - NAIC (1)	\$750,515	\$775,493	\$812,123	\$819,661	\$858,780	\$39,119	4.8%
Recruiting and Relocation (2)	142,855	189,021	340,907	314,492	351,992	37,500	11.9%
Bad Debt Expense (3)	39,666	(27,395)	187,317	40,000	20,000	(20,000)	-50.0%
Member Relations (4)	11,714	6,042	12,042	10,000	15,000	5,000	50.0%
Other Expense (5)	33,867	200,000	200,000				
Total	\$978,617	\$1,143,160	\$1,552,388	\$1,184,153	\$1,245,772	\$61,619	5.2%

- (1) Professional Association dues includes \$786,400 for the NAIC's annual membership in the IAIS, an increase of \$12,800 over the dues paid in 2022. The IAIS is expected to budget a 4.5% increase in dues for the NAIC in 2023, calculated in Swiss Francs. The increase in 2022 was 5.0%. The NAIC bears the currency conversion rate risk on this membership fee. The conversion rate at the time the budget was calculated was slightly lower than the rate paid in 2022. The increase in this line is to foster employee involvement in several external organizations as part of the new DE&I affinity program.
- (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 2022 projection reflects continuing difficulties to secure qualified individuals in today's remote labor market. The 2023 budget assumes a continuation of the need to broaden the search for viable candidates.
- (3) Bad debt expense is a provision for future uncollectible customer accounts receivable.
- (4) The member relations account includes expenses associated with the Dineen Award recipient and recognition of NAIC Members and Officers. The budgeted increase in 2023 is based on actual results for 2021 and the 2022 projection.
- (5) The \$200,000 in 2022 represents the initial funding of the New Avenues to Insurance Careers Foundation approved by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee on April 4, 2022. The funding is to cover start up costs.

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	2021 Actual	6/30/2022 Actual	12/31/2022 Projected	2022 Budget	2023 Budget	Increase (Decrease)	Percentage
Interest Income (1)	\$4,986	\$75,915	\$401,570	\$100,120	\$351,500	\$251,380	251.1%
Dividend Income (2)	4,267,373	1,167,281	2,438,045	2,600,000	2,400,000	(200,000)	-7.7%
Realized Gain/(Loss) (3)	3,847,043	2,279,432	2,308,958				
Unrealized Gain/(Loss) (3)	4,025,794	(23,103,821)	(20,135,048)				
Investment Fees (4)	(287,528)	(197,345)	(342,037)	(300,005)	(360,000)	(59,995)	20.0%
Total	\$11,857,668	(\$19,778,538)	(\$15,328,512)	\$2,400,115	\$2,391,500	(\$8,615)	-0.4%

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 uses actual results through August to project year-end results for the current year. These projections are monitored closely throughout the year. Realized and unrealized gains or losses are not budgeted due to the volatility of the market.

- (1) The over budget performance in 2022 and the increased budget in 2023 are driven by the current, rising interest rate environment.
- (2) Dividend income is projected based on current and historical dividend receipts. The 2022 projection is expected to fall short of budget based on the current financial markets and mix of NAIC investments. Budgeted 2023 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, 2022, were generated from the sale of existing financial holdings as part of the ongoing investment strategy. 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 2022 and during 2023.
- (4) GAAP requires the presentation of investment advisory management fees as an offset to investment income. Fees for the NAIC's long-term investment portfolio are budgeted to increase based on current market trends.

**2023 BUDGET
FISCAL IMPACT STATEMENTS**

Fiscal Impact Number	Description	2023 Budget			Net Impact 2023 Budget
		Capital Expenditures	Revenues	Expenses	
	Total Revenues Over/(Under) Expenses Before Fiscals and Investment Income	\$4,990,465	\$138,828,880	\$147,581,295	(\$8,752,415)
1	SERFF Modernization - 2023 Transition Stages	6,654,388		500,142	(500,142)
2	Financial Data Repository (FDR) Modernization Phase I			380,000	(380,000)
3	Regulatory Information Retrieval System (RIRS) Coding Project			200,000	(200,000)
4	2023 Revenue Enhancements		5,600,000		5,600,000
5	2023 Staffing Requests			586,690	(586,690)
	Total Fiscal Revenues Over/(Under) Expenses	6,654,388	5,600,000	1,666,832	3,933,168
	Investment Income		2,391,500		2,391,500
	Total Revenues Over/(Under) Expenses	<u>\$11,644,853</u>	<u>\$146,820,380</u>	<u>\$149,248,127</u>	<u>(\$2,427,747)</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 15, 2022
NAME OF INITIATIVE:	SERFF MODERNIZATION – 2023 TRANSITION STAGES
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2023
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2023
TOTAL REVENUE EXPECTED (2023):	\$0
TOTAL EXPENSE REQUESTED (2023):	\$500,142
(2024):	\$2,259,559
TOTAL CAPITAL REQUESTED (2023):	\$6,654,388

I. Executive Summary

This fiscal requests funding for the second year of a three-year transition to a modernized rate and form filing platform. The NAIC’s System for Electronic Rates and Forms Filing (SERFF) was launched collaboratively by regulators and industry more than 22 years ago, designed to provide an efficient process for required insurer product filings and regulatory review. Today, 53 jurisdictions accept SERFF filings made by more than 6,500 industry users. The system handles requirements for product filing submissions, allowing companies to submit product filings to the 53 jurisdictions, which are subsequently reviewed by regulators, the results of which are then communicated with the companies. The system processes more than 550,000 transactions every year with life, health, and property/casualty (P/C) filings as well as capabilities for the Interstate Insurance Product Regulation Commission (Insurance Compact) and the Affordable Care Act (ACA). The platform was upgraded 16 years ago and was additionally expanded a decade ago in response to the ACA.

A modernized platform will enable SERFF to take advantage of new technological developments in document management and workflow. Additionally, using new developments in artificial intelligence for text processing will be of tremendous benefit to the product filing and review process. An in-depth assessment conducted by an outside vendor in 2020 validated the need to ensure consistent and efficient review of product filings through automating manual processes and providing the ability to gain insights from the data stored in SERFF. The assessment also determined it would be impractical and unwieldy to modify the current platform to meet these needs.

In 2021, the NAIC moved forward with a mobilization and pilot phase with two main objectives. First, to select the best and most robust technology solutions to meet current and future business needs and second, to work with external expertise to develop a proof of concept for a new, modern SERFF platform. An oversight group of nine insurance regulators, in conjunction with NAIC staff, selected a qualified

vendor team perform the pilot. The oversight group conducted regular touchpoints throughout 2021 and approved the conclusion of the mobilization and pilot phase in October 2021 upon the consulting firm's delivery of a transition plan and roadmap for buildout of a new platform. A fiscal for the first phase of the modernization approved funding to continue the engagement of the mobilization and pilot phase's vendor into 2022, as well as the other consulting, software, and technology tools needed for the transition work to be completed in 2022. The 2022 fiscal, which was approved in spring 2022, covered funding of transition stages T1, T2, and initial work of T3.1, as defined in the roadmap and transition plan shown in Table 1 below. The T1 and T2 stages included new search functionality and improved reporting, which will be deployed by late 2022.

Table 1

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

This fiscal requests funding to continue the modernization work through 2023. The T3 stages will move users by product to the new platform, beginning with the Insurance Compact in stage T3.1 (to be completed by fall 2023), followed by life in T3.2 (by fourth quarter 2023), P/C in T3.3 (by year-end 2023), and health in T3.4 (by mid-2024). Plan management capabilities in stage T4 will complete the full modernization transition by year-end 2024. Funding needed to complete transition work in 2024 will be requested via a fiscal submitted with the 2024 proposed budget.

A product-based transition approach allows groups of users to train and become familiarized with the platform in a manageable way. It also provides for continuous improvement in the transitioning so that lessons learned can be applied in the following stages. This approach should also minimize the need for users to switch back and forth between the legacy system and the new platform.

As outlined in the fiscal for the first phase, the initiative is expected to cost up to \$20 million to complete over the three years of the project, with consulting expenses amortized over a 10-year life cycle. Annual expenses for run costs and support services are currently projected to increase over the current level by

between \$2-3 million. To support the new platform, SERFF transaction fees were adjusted to a flat fee per filing of \$17 in May 2022, with annual increases thereafter based on the previous year's CPI-U as published by the Bureau of Labor Statistics, to cover both the costs of modernizing the platform as well as support ongoing operations of the new platform. The 2023 fee increase to \$17.61 is included in the NAIC's 2023 base budget.

II. Key Deliverables

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

Future stages will also bring about greater automation, such as checking for filing completeness and making filing assignments, simple tasks that when automated will allow regulators to focus on the more complex work involving product filing review.

The NAIC has had a SERFF application programming interface (API) available for the jurisdictions' use in pulling data from the system for 20 years. However, it is used by only half of the jurisdictions due to their limited information technology (IT) resources available for the API's support. With the modernization and planned integration with certain database warehousing and business intelligence tools, jurisdictions will have data access and visualization, including that captured within filing attachments, reducing the need for jurisdictional IT support of these capabilities. Efforts toward data accessibility started in T1 with the indexing of the documents in the SERFF legacy databases and in T2 with SERFF data being copied to the NAIC's data warehouse. This will continue to be a focus in subsequent project phases.

III. Initiative Benefits

Overall, the new platform will bring a host of improved functionality and features to system users, both industry filers and regulator reviewers. While improved search functionality and reporting have been addressed in the deliverables in the previous section, this section details the benefits to be gained once the platform has been completely modernized.

The overarching goal of the modernization is to gain operational efficiencies while taking advantage of technology and innovation opportunities available today. Both industry and regulator users are increasingly resource constrained. The process improvements envisioned in the transition stages, bolstered by advanced technology solutions, will improve rate and form filing efficacy, which in turn will improve product speed to market. The new system will be easier and more intuitive to use, implement quality control checks to prevent incomplete filings, enhance communications between filers and reviewers, and provide access to data more easily. In the end, filings will be made more quickly and with fewer errors, enabling regulators to review the filings more easily and provide feedback in a streamlined manner captured by the system.

The modernized platform will also be set up such that it can integrate with advances in innovation such as artificial intelligence, business intelligence, machine learning, and other data analysis tools, again with an eye toward improving speed to market. The system's architecture will allow information from other

NAIC systems to be available more readily, which will then display all the information needed to complete the review in one location. APIs and other system integration capabilities will connect regulators, industry users, and other stakeholders and track communications within SERFF so they can be retrieved for future reference.

Regulators will see improvements in the following areas:

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

Industry users will see improvements in the following areas:

- Enhanced speed to market, not just improved efficiencies of review and turn around, but also for emerging non-traditional insurers who may not be familiar with traditional processes and terminology
- Improved system performance, especially during seasonal peaks
- Ability to accept multiple file types, including use of hyperlinks
- Improved communication of filing status, including a dashboard with tailored information such as days to completion, submitted filing status, and assigned reviewer
- Increased user configurability including reports, timeout features, and filing status dashboard
- Improved user design to address accessibility and disability needs
- Support for mobile devices and handheld devices, expanding submission opportunities
- Greater ability to edit and/or delete data input, along with ability to change filing type without having to refile
- Addition of a filing fee calculator to provide certainty concerning filing payments
- Increased file size to avoid having to break up files
- Ability to reorder filed forms, which in some cases can be between 200-300 forms, to meet jurisdiction-specific requests for a particular order, with consideration of layering or hierarchy of supporting documentation
- Improvements to filing cloning feature
- Improved process for deletion/destruction of data
- Improved instructions to help filers understand new and modified filing requirements
- Balance between required fields and those where free-form responses can be made to aid accurate completion of submission
- SERFF reminder functionality, such as when an objection is due

IV. Financial and Organizational Impact

To continue the work on the transition stages, funding is requested in 2023 for professional services to contract with the mobilization and pilot phase's vendor. In addition, consulting continues to be needed to backfill key NAIC resources during these phases. Overall, professional services of \$5.8 million and \$817,284 in software costs will be capitalized then amortized over the expected 10-year life of the new platform, starting with the deployment of functionality for transition stage T1 in 2022. Amortization for current and prior year SERFF capital expenditures will be \$259,600 in 2023 and \$965,748 in 2024.

In addition to external consulting resources, two full-time positions are needed as work on the transition stages continues, as well as ongoing support. The first position is a data architect and the second is a test automation engineer. These positions, which are expected to be hired in the last half of 2023 at a cost of \$158,585, will provide critical ongoing development resource support as additional lines of business are made operational. It is anticipated that 2023 will result in substantial enhancements in functionality, and accordingly, these positions are essential to the rollout of such improvements. Additional positions needed for the final transition stages and the resulting ongoing support are anticipated to be requested in the 2024 fiscal.

Expenses for travel to insurance departments and for regulators to travel to the NAIC for training have been included, for \$82,057. The regulator travel would cover two sessions with NAIC staff: the first would cover initial configuration and Insurance Compact functionality held at the NAIC, while the second would take a train-the-trainer approach with Life units at the department of insurance.

See **Attachment I** for further financial details.

V. Risk Management Plan

- Document Management: The current fiscal does not anticipate the need for a document management system. The capabilities matrix exercise completed in the mobilization and pilot phase suggested the existing platform could sufficiently meet the anticipated regulatory needs. While there is currently no information that contradicts this assumption, it has not been fully explored. Mitigation efforts include trying to define that feature more fully and, if necessary, looking for a mid-range alternative that does not have the expenses associated with a full-functioning document management system.
- Identity Management: During the mobilization and pilot phase, it was assumed there would be a clear path for implementation of an enterprise identity management solution. At this time, a solution has not been found, although efforts are planned to define a viable path forward. There are enterprise components to be developed that are not within the original scope of the vendor partnership. Once further research has been conducted, the effort to complete the enterprise portions of the solution will need to be assessed. This was an expected capability for transition phase 3.1, so timing will be crucial. If a solution is not provided in time to meet the T3.1 release date, assistance from the vendor partner may be required, which would increase costs, result in T3.1 moving to production without single sign on functionality, or pushing identify management to a subsequent phase.

VI. Security Impact

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

There will be enhanced auditing and logging available. This will allow the NAIC Security Operations Center to gather the necessary information for enhanced audit controls.

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

2023 Budget

**SERFF Modernization - 2023 Transition Stages
Project Cost Analysis**

Anticipated Start Date: January 2023

Anticipated Completion Date: December 2023

Description	2023 Budget	2024 Budget	2025 Budget
Expenses:			
Salary and Benefits	\$158,485	\$328,063	\$339,546
Staff travel to DOIs	6,322		
Regulator travel to NAIC	75,735		
Amortization	259,600	965,748	965,748
Total Expenses	500,142	2,259,559	1,305,294
Revenues Over (Under) Expenses	(\$500,142)	(\$2,259,559)	(\$1,305,294)
Capital Purchases:			
Consulting Resources	\$5,837,104		
Annual run costs (AWS)	96,000		
Open Source Database	59,256		
Low-code Tech (Appian)	662,028		
Total Capital Purchases	\$6,654,388	\$0	\$0

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 15, 2022
NAME OF INITIATIVE:	FINANCIAL DATA REPOSITORY (FDR) MODERNIZATION PHASE I
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	TODD SELLS, DIRECTOR—FINANCIAL REGULATORY POLICY AND DATA
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2023
ANTICIPATED COMPLETION DATE:	DECEMBER 15, 2023
TOTAL REVENUE EXPECTED (2023):	\$0
TOTAL EXPENSE REQUESTED (2023):	\$380,000
TOTAL CAPITAL REQUESTED (2023):	\$0

I. Executive Summary

The current Financial Data Repository (FDR) system is over 20 years old and consists of both client-server applications and backend server processes that support core functionality to collect, load, process, and maintain annual and quarterly financial statement data. FDR was developed with technologies that no longer efficiently or effectively integrate with the current NAIC development tools and is now a one-off technology stack that has become difficult and time consuming to support. Ongoing support for the current FDR applications/processes developed in old technology cannot be supported indefinitely.

Replacing the current FDR system will require multiple phases to complete as it has around two million lines of code to support the financial data collection/support process. The current systems are antiquated and require many manual steps to support.

In order to reach the goal of modernizing the FDR system, the Financial Regulatory Policy and Data Department suggests focusing on the beginning of the data collection process. All financial data that is collected and processed at the NAIC starts with the financial statement blanks as supported by the Blanks (E) Working Group. NAIC needs to conduct an in-depth assessment of the volumes and types of data received as well as review the several metadata and validation processes and tools utilized to streamline and reduce the effort to support the year-over-year collection, review, and distribution of regulatory data. This fiscal requests funding to initiate a third-party assessment to generate initial NAIC plans to modernize the platform used for FDR as well as to use third-party consultants to develop new access paths to FDR data tables.

II. Key Deliverables

This project has several key deliverables, highlighted as follows:

- Analysis and documentation of current and anticipated business needs versus the current capabilities of the system. In essence, this will assess the current situation, including the most unique or critical steps required to incorporate the blanks data structure into electronic specifications for the FDR system. It is recommended that a third-party vendor conduct business process modeling to provide an independent view of the FDR business function.
- Evaluation and recommendation of future state for FDR metadata and validation management (recommend third-party vendor).
- Evaluation of both new technologies and the current regulatory data capture (RDC) solution, leveraging existing capabilities where possible.
- Use of third-party consultants to develop and deploy web services architecture to access the thousands of financial tables via various application programming interfaces (APIs). These are needed for efficient review and analysis solutions and would be used throughout the NAIC organization.

III. Initiative Benefits

Insurance regulators and NAIC staff will benefit from this initiative as it will enable the identification and foundation for a future FDR modernization initiative. Deliverables from this initiative will help determine the future path and foundation for FDR.

Anticipated benefits, upon the ultimate modernization of FDR, will focus on a database fit for cloud technologies, streamlining processes, reducing manual work for developers as well as quality assurance support staff, and speedier reviews of data quality. The current version of FDR is deteriorating, and fixes are becoming more manual as currently available technologies and technologies deployed in other areas of the NAIC exceed FDR existing functionalities – increasing processing time for an already outdated, inefficient system.

Historically, NAIC has been able to provide regulators with access to insurers' statutory financial statement filings within two hours of submission. FDR failed to meet this for the most recent annual statement cycle; some filings were backed up for two days. New technologies will allow for a return to or potential improvement on the availability of the data. This redesigned platform will also interact better with the newly designed NAIC Enterprise Data Platform, which will allow significant benefits to regulators such as the availability of enhanced drill-down analysis as well as the ability to independently access certain database information without having to request ad-hoc data from the NAIC. For insurers, modernization will improve the overall data submission process, including streamlining the number of files to be sent and the type of files supported.

IV. Financial and Organizational Impact

The project requests \$380,000 in professional services during the 2023 fiscal year (see **Attachment I**). The professional services funding will be used to engage a third-party vendor for business process modeling and evaluation of future state, including reviewing FDR's current capability versus its ongoing needs. Part of this funding will also be used to augment the development team with additional resources for conducting proof-of-concept analysis of potential solutions and development of financial web services.

V. Risk Management Plan

The key risks for the project include business and technical staff availability and higher organization priorities, which may delay the deliverables of this project. These risks will be mitigated using a third-party vendor for the analysis and business modeling. NAIC staff will manage the project through communication, planning/prioritization, and coordination of personnel.

VI. Security Impact

This stage of this project involves reviewing existing internal processes and as such, it should not introduce any security risks. However, as processes are improved, security will be a consideration to ensure best practices are followed.

2023 Budget

**Financial Data Repository (FDR) Modernization Phase I
Project Cost Analysis**

Anticipated Start Date: January 2023

Anticipated Completion Date: December 2023

Description	2023 Budget	2024 Budget	2025 Budget
Expenses:			
Professional Services - Business Modeling	\$140,000	\$0	\$0
Consultants	240,000	0	0
Total Expenses	380,000	0	0
Revenues Over (Under) Expenses	<u>(\$380,000)</u>	<u>\$0</u>	<u>\$0</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 15, 2022
NAME OF INITIATIVE:	REGULATORY INFORMATION RETRIEVAL SYSTEM (RIRS) CODING PROJECT
REGULATOR/BUSINESS SPONSOR:	MARKET INFORMATION SYSTEMS (D) TASK FORCE
NAIC STAFF SUPPORT:	TIM MULLEN, DIRECTOR—MARKET REGULATION
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2023
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2024
TOTAL REVENUE EXPECTED (2023):	\$0
TOTAL EXPENSE REQUESTED (2023):	\$200,000
(2024):	\$200,000
TOTAL CAPITAL REQUESTED (2023):	\$0
(2024):	\$0

I. Executive Summary

The Regulatory Information Retrieval System (RIRS) is a NAIC-created platform that contains records of regulatory actions taken by participating state insurance departments against insurance producers, companies, and other entities engaged in the business of insurance. The benefit of the system is that regulators have a common, uniform system in which to enter, view, and follow up on regulatory actions.

There are three ways jurisdictions maintain enforcement actions: through NAIC’s State Based System application (SBS); a third-party vendor; or a state-specific system. States may use these systems to upload enforcement actions to RIRS or they may utilize a standalone option referred to as the RIRS Entry tool (formerly known as Transaction Utility [TU]).

This fiscal proposes significant coding revisions to RIRS to enhance system reporting and update a segment of the platform’s coding structure. The reporting enhancements were developed by RIRS subject matter experts (SMEs) of the Market Information Systems Research and Development (D) Working Group. The coding changes are designed to create greater coherency to the RIRS data structure, redesign the standalone RIRS entry tool, and make RIRS more compatible with other NAIC Market Information Systems, such as the Market Analysis Tracking System (MATS) and the Market Analysis Review System (MARS).

The RIRS coding changes consist of:

- A new record type field to distinguish routine administrative actions from actions that are a result of an infraction or financial impairment. This distinction is important for market analysis purposes as the cause and conclusion vary greatly based on action type.

- A new modification indicator field to link related RIRS records. As some RIRS records represent a termination, modification, or extension of a previous RIRS record, this new field will be used to eliminate duplicate records when counting unique actions.
- A new line of business field to reflect infractions that arise out of activity specific to a line of business.
- Significant revisions to the origin of action, reason for action, and disposition for action codes, all of which will provide a more logical data structure.
- Redesign of the standalone RIRS entry tool to eliminate outdated technology and duplicative tools within NAIC systems.

II. Key Deliverables

Key deliverables that will ensure successful transition to the new process include the following events, which will run concurrently. The existing RIRS Entry tool will be retired following successful implementation by each member jurisdiction.

- Implement the coding changes in SBS.
- Coordinate with the third-party vendor and jurisdictions that maintain their own back-office systems to implement the coding changes in their upload tools.
- Ensure the new and revised codes are mapped correctly to upload protocols.
- Roll out the changes in SBS and the third-party vendor to NAIC members sequentially.
- Introduce a new SBS RIRS upload tool to jurisdictions that currently rely on the RIRS entry tool. Map previously submitted data to new and revised data fields.
- Ensure the consistency and quality of data using the new and revised codes.

III. Initiative Benefits

The RIRS coding enhancements were adopted by the Market Information Systems (D) Task Force and the Market Regulation and Consumer Affairs (D) Committee during the NAIC 2021 Summer National Meeting to increase the usefulness and effectiveness of RIRS. The implementation of the new RIRS field and codes will enable market conduct analysts to review regulatory actions on a more granular basis and compare the data with market data in other NAIC databases.

Insurance companies are vested in more accurate, efficient, and effective market analysis. Timely and accurate analysis identifies important compliance issues to be addressed and enables insurance regulators to focus their resources on issues and companies of concern. Likewise, companies and issues that do not exhibit issues of concern may be more readily eliminated from additional review.

Consumers will benefit through the identification of potential issues and trends in the insurance marketplace, which may be detrimental to the public.

In summary, the implementation of the RIRS coding changes supports the mission of the NAIC, which is to assist insurance regulators, individually and collectively, in serving the public interest in a responsive, efficient, and cost-effective manner.

IV. Financial and Organizational Impact

This project will hire two consultants to work with the Market Regulation Division to complete the implementation of the RIRS coding changes in all jurisdictions by the end of 2024. The consultants will

gather business rules and complete the mapping document by coordinating with SBS and the third-party vendor to create a smooth coding and testing process. The consultants will also engage with insurance regulators to implement business rule changes and mapping/coding changes for those jurisdictions that use a jurisdiction-specific system.

It is estimated that each jurisdiction will take approximately three weeks to implement. With two consultants concurrently working with multiple jurisdictions, the project is anticipated to be completed by the end of 2024, pending jurisdiction availability and readiness.

The annual cost for consulting is estimated to be \$200,000, with two consultants being utilized for two years, for a total of \$400,000. It is anticipated that the project will be completed by the end of 2024 (see **Attachment I**).

V. Risk Management Plan

Jurisdictions will need to modify their systems for inputting and uploading RIRS records to the NAIC. If jurisdictions are unable to make these changes when necessary, implementation of the new codes could be delayed. The Market Data Team should be able to reschedule the implementation of those specific jurisdictions for later in the project while still maintaining an implementation of the coding changes in all jurisdictions by the end of 2024. Most jurisdictions use SBS or a third-party vendor, which have a standard code that is consistent among all participating jurisdictions, thus speeding the implementation process.

Twelve jurisdictions currently submit their data through the RIRS entry tool. There may be resistance from these jurisdictions to converting to an SBS entry tool because the RIRS entry tool has front-end data validation functionality and more complete search capabilities that is not available in the SBS entry tool. There are also limitations within SBS related to the entities available for selection and record entry. Feedback from these jurisdictions may require SBS to enhance its entry tool to match the functionality of the current RIRS entry tool.

The code changes and conversion from the RIRS Entry tool will be managed through operational work completed by NAIC ITG and SBS staff. The mapping and validation of data consistency and quality will be managed by the Market Data Analysis Manager and the Senior Market Analysis Manager. Regular progress reports will be provided to the Market Information Systems Research and Development (D) Working Group and the Market Information Systems (D) Task Force.

VI. Security Impact

The RIRS Coding Project includes the complete retirement of Transaction Utility, the current tool used for manual RIRS entry, and further deployment of the new SBS RIRS upload tool. All tools used in the new platform will be reviewed by the NAIC Security team and will abide by best business practices.

2023 Budget

**Regulatory Information Retrieval System (RIRS) Coding Project
Project Cost Analysis**

Anticipated Start Date: January 2023

Anticipated Completion Date: December 2024

Description	2023 Budget	2024 Budget	2025 Budget
Expenses:			
Consultants	\$200,000	\$200,000	\$0
Total Expenses	200,000	200,000	0
Revenues Over (Under) Expenses	<u>(\$200,000)</u>	<u>(\$200,000)</u>	<u>\$0</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 15, 2022
NAME OF INITIATIVE:	2023 REVENUE ENHANCEMENTS
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JIM WOODY, CHIEF FINANCIAL OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2023
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2023):	\$5,600,000
(2024):	\$5,765,600
TOTAL EXPENSE REQUESTED (2023):	\$0*
TOTAL CAPITAL REQUESTED (2023):	\$0

* No additional expenses are requested. However, see notes under the Life Insurance Mortality Experience Data section of this fiscal regarding expenses currently being incurred by the NAIC.

I. Executive Summary

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Established in 1871 to coordinate insurance regulatory activities between its members, the NAIC provides state insurance regulators, as well as insurance consumers and the insurance industry, with a number of support services including training programs, publications, financial securities evaluation, data and information systems, and many other services to assist its members in achieving their insurance and regulatory goals in a timely and cost-effective manner.

The NAIC's activities benefit consumers, regulators, and insurers and are funded in a variety of ways including member assessments, database filing fees, sale of insurance data products, provision of security designations, evaluation of structured securities owned by insurers, transaction filing fees, meeting registration fees, and through a number of other ancillary services. While the NAIC's support function is broad, its goals and objectives are best summarized in the following three categories:

- 1) Safe, Solvent, and Stable Markets – The NAIC aims to provide insurance regulators with data, training, and tools required to support a collaborative regulatory environment that fosters stable financial markets and reliable and affordable insurance products.

- 2) Consumer Projection and Education – The NAIC aims to ensure that consumer protections keep pace with changes in the marketplace and consumers have the information and education needed for informed decision making regarding their insurance needs.
- 3) Superior Member Service and Resources – The NAIC disseminates resources to help regulators set standards and best practices by providing regulatory support functions and educating consumers and other stakeholders on U.S. state-based insurance regulation.

To fulfill its core mission, the NAIC has made and continues to invest heavily in its technology infrastructure. Several of its primary support systems are undergoing significant upgrades, which will benefit insurance regulators and insurers through enhanced and more efficient information submission processes. In combination with ongoing efforts to enhance the technology infrastructure, the NAIC is also experiencing inflationary pressures for resources (e.g., technology, personnel). These factors, combined with expenditures from current and ongoing *State Ahead* initiatives, have resulted in budgeted losses from operations. Critical investments included in the 2023 NAIC Budget include expenses of \$149.2 million, which results in an operating loss for 2023 of \$10.4 million before the inclusion of this fiscal. Income from the NAIC's financial investments do little to offset these large operating losses given the current financial market condition. Through August 31, 2022, investment income is a net loss of \$16.5 million. In addition to projects included in the 2023 budget, there will likely be additional 2023 proposals to implement initiatives associated with the NAIC's new strategic plan, *State Connected*, which is currently under development. The 2023 budgeted operating losses will be partially offset by the inclusion of \$2.4 million in investment income, resulting in a reduction in net assets of \$8.0 million prior to the inclusion of this fiscal.

In order to meet the objectives and responsibilities of the NAIC, management is constantly monitoring and carefully managing its finances and critically reviewing every revenue, capital, and expense proposal for its impact on the organization, its members, and insurers. Cognizant of the impact of any change to long-standing practices, NAIC management thoroughly reviews and makes prudent adjustments, as required, to ensure it has the resources necessary to fulfill its mission to its members, insurance consumers, and insurers alike. NAIC management, with guidance from NAIC Officers and the Audit Committee, has developed two revenue enhancements to accomplish the following:

- Partially shrink the gap between budgeted revenues and expenses.
- Cover the cost of critical strategic and technology enhancements.
- Respond to inflationary pressures.
- Ensure future financial stability.
- Recover costs associated with additional services (Life Insurance Mortality Experience Data).

II. Description of Proposed Revenue Enhancements

The first enhancement is an adjustment to the database filing fee group cap, which increases the group cap from three times the individual company cap to five times the individual company cap. The second is a new fee to partially cover the costs of compiling, reviewing, and analyzing life insurance mortality experience data as required in VM-50, Experience Reporting Requirements, and VM-51, Experience Reporting Formats, of the *Valuation Manual*.

- Database Filing Fees Group Cap Adjustment – NAIC's database filing infrastructure provides an automated process for insurance reporting entities to file their required financial statement filings in one, single uniform reporting location rather than having to file in every jurisdiction in which the company operates or is licensed. The filings are reviewed by the NAIC for accuracy and completeness through several validation checks and are made available to regulators through NAIC's single sign-on portal. Filers benefit from this process as they can submit all

required filings once through a single submission portal and regulators benefit as they are able to access filings and numerous analysis tools through a single review portal.

Most filers are subject to a filing fee based on the total premiums for their products. This fee is a flat percentage fee of \$26 per million in premium, subject to a minimum and maximum individual company fee of \$240 and \$94,646, respectively, which represents the 2022 fee adjusted by the Consumer Price Index of 3.6% as published by the Bureau of Labor and Statistics. In addition to the minimum and maximum fees per individual company, insurance groups are currently limited to a maximum of three times the individual fee ceiling. In essence, this ceiling permits large group filers to limit their total group filing fees to three times the individual ceiling (i.e., $3 \times \$94,646 = \$283,938$), regardless of the number of companies in that group or the group's total premiums. This group ceiling provides 32 groups with 1,115 companies a group filing fee significantly less than the standard \$26 per million in premium that is incurred by most insurance companies and results in a \$14.6 million in savings from reduced filing fees.

One of the main objectives of any proposed modification is to take into consideration an approach that is fair and equitable. The original (and current) group ceiling or cap of three times the individual cap has been in place since the early 1990s. In the three decades since, however, industry has seen significant merger and acquisition activity with many groups now containing over 40 insurance reporting entities and two groups having nearly 100 insurance reporting entities. With the ongoing growth of these groups, their prorated filing fee (as a percentage of per million in premium) continues to erode despite the rising regulatory costs to support these entities. To address this growing inequity, the NAIC is recommending an increase in the group cap to five times the individual company cap. This change will only impact large groups currently at the cap by increasing the group cap by an additional \$189,292 to \$473,230, resulting in a more equitable manner to fund regulatory operations. This fee adjustment does not impact the 3,733 companies outside of a group that reaches the fee cap.

The incremental revenue from the filing fee ceiling adjustment is estimated to be \$4,600,000.

- Life Insurance Mortality Experience Data Fee – In 2021, the NAIC began collecting life insurance mortality experience data as required in VM-50 and VM-51 of the *Valuation Manual*. The benefits from this newly collected data are multifaceted and will aid in the creation of updated industry mortality tables; allow state insurance regulators to perform reasonableness checks on the appropriateness of principle-based assumptions as documented in Principle-Based Reserving (PBR) actuarial reports; and provide an independent check on the accuracy and completeness of company experience studies.

While the data is critically important, the number of insurers required to achieve a target of 85% of industry experience data are relatively few as several criteria must be met to require filing. Filers must have over \$50 million in direct individual life premiums and have specific claims experience. However, groups may exempt affiliated companies with less than \$10 million in direct premiums provided the remainder of the group reports their experience data. In 2021, this resulted in 106 companies submitting data to the NAIC as it was acting as the Experience Reporting Agent pursuant to the *Valuation Manual*, which is incorporated by reference in each jurisdiction's Standard Valuation Law (SVL).

The timeline to file is relatively straightforward.

- July–September – The window for initial data submissions. After submission, NAIC staff have 30 days to provide feedback for any data exceptions that need to be reviewed. It is important to note that in 2021, every submission had data exceptions.
- December 31 – Deadline for final data submissions in the event data exceptions were identified in the initial submission or in a later submission. NAIC actuarial staff re-reviews the data provided.
- May 31 of the following year – An aggregated data file is provided to the Society of Actuaries (SOA) to be used in the development of updated industry mortality tables.

The cost to the NAIC to act in this capacity is not insignificant and is growing. A major time commitment from NAIC actuarial staff is required while data is being collected, initially reviewed, and subsequently re-reviewed after companies provide updated submissions to address data exceptions. Additional actuarial resources are also required to report results to regulators and the SOA including (1) additional development work (e.g., assisting in the development and implementation of VM-51 amendments) and (2) training of regulators, staff, and company participants. This additional work is required and performed on an ongoing basis. In the first year alone, salaries and benefits for the time spent by actuarial staff cost on this project was approximately \$765,000. However, this amount does not include other internal resources such as numerous personnel within the Financial Regulatory Services (FRS) Division and Information Technology Group (ITG) to assist with numerous aspects of reviewing company submissions or coordinating technology efforts to collect and deliver the submitted data. These supplemental costs are estimated to be \$500,000. Leadership of the Life Actuarial (A) Task Force is aware that the data collection project involves a significant time commitment from actuarial and other NAIC resources. These expenditures, in combination with other ongoing costs that involve legal, other actuarial resources, and overhead, have resulted in the recommendation to recoup a majority of future ongoing costs through the implementation of a life insurance mortality experience data submission fee of \$10,000 to each of the 100 companies who are anticipated to have ongoing, annual VM-50/VM-51 filings for total revenue of \$1,000,000. NAIC support staff will periodically update the Task Force regarding the use of these resources, including any material changes. It is anticipated that as the ongoing efforts related to VM-50/VM-51 and other PBR related activities are assessed, further recalibration of the fee or expansion of companies subject to cost recovery will be evaluated. The fee will be subject to an annual increase to reflect increasing cost to provide this service.

III. Initiative Benefits

NAIC members will continue to receive the quality services they have always received from the association. The NAIC continues to invest in its infrastructure and IT systems as demonstrated by the successful completion of several initiatives as highlighted in *State Ahead*. Members will greatly benefit from these projects as:

- The database filing fee ceiling adjustment will help close the gap between budgeted revenues and expenditures. As the NAIC's core function is to support insurance regulators in their oversight and regulation of insurers, a sustainable yet prudent operating budget will ensure ongoing support is received by the members. The adjustment of the group cap will also help level the playing field, resulting in more equitable funding of regulatory operations.
- The life insurance mortality experience data fee will provide cost recovery for NAIC activities and will aid in the creation of updated industry mortality tables; allow state insurance regulators to perform reasonableness checks on the appropriateness of principle-based assumptions as

documented in PBR actuarial reports; and provide an independent check on the accuracy and completeness of company experience studies.

IV. Financial and Organizational Impact:

The financial impact of this fiscal is as follows:

- Database Filing Fee Group Cap Adjustment – The adjustment in the factor used to determine the group filing fee cap, the first since the early 1990s, will increase the group cap for large group insurers. This adjustment is anticipated to result in an additional \$4,600,000 revenue for 2023.

Database filing fee ceiling adjustment will require validation to ensure the new rate structures are properly entered into the billing and financial systems. Since rate and assessment changes are an ongoing part of the NAIC activities, these changes can be implemented seamlessly.

- Life Insurance Mortality Experience Data Fee – The implementation of this fee will partially recoup expenses associated with the collection and review of life insurance mortality experience data submissions associated with VM-50 and VM-51 filings. The fee will be \$10,000 to each of the approximately 100 companies who are anticipated to have ongoing filings, for a total anticipated impact of \$1,000,000.

With only 100 companies anticipated to file experience data submissions, billing will be performed manually based on the date of the first submitted data file. This billing is not anticipated to cause any integration or billing impacts. This billing will be automated as soon as practical.

See **Attachment I** for the financial impact details.

V. Risk Management Plan

Within the 2023 budget, the NAIC has projected a reduction in net assets of \$19.0 million in 2022 and has budgeted a further reduction in net assets of \$8.0 million in 2023 before the inclusion of this fiscal. In addition, the NAIC has budgeted capital spending of \$11.6 million in 2023. The NAIC's expenses continue to increase for a multitude of reasons, including commitments to upgrade several aging platforms (many of which were originally designed 20+ years ago); improve both network security and operating efficiency for regulators and insurers; and enable funding of critical initiatives as identified by the regulators. In addition, the NAIC faces many ongoing challenges such as an uncertain economic and inflationary environment and the inability to rely on investment income to fund operations due to the heightened volatility of the financial markets.

The inclusion of these revenue adjustments is critical to ensure ongoing operations and new initiatives receive adequate funding and are not negatively impacted. Without the inclusion of these revenue adjustments in the 2023 budget, the NAIC's net assets would continue to decline and impair the association's ability to continue to meet the needs of the regulators, insurance companies, and consumers.

VI. Security Impact

These projects should not introduce any security risks. As new processes are implemented, the IT security team will be notified to ensure best practices are followed.

2023 Budget

2023 Revenue Enhancements Project Cost Analysis

Anticipated Start Date: January 2023
Anticipated Completion Date: Ongoing

Description	2023 Budget	2024 Budget	2025 Budget
Revenues:			
Database Filing Fees	\$4,600,000	\$4,765,600	\$4,937,162
Experience Data Fees	1,000,000	1,000,000	1,000,000
Total Revenues	5,600,000	5,765,600	5,937,162
Revenues Over (Under) Expenses	<u>\$5,600,000</u>	<u>\$5,765,600</u>	<u>\$5,937,162</u>

Fiscal Impact Statement

DATE SUBMITTED:	SEPTEMBER 15, 2022
NAME OF INITIATIVE:	2023 STAFFING REQUESTS
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	ANDY BEAL, CHIEF OPERATING OFFICER/CHIEF LEGAL OFFICER AND JIM WOODY, CHIEF FINANCIAL OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2023
ANTICIPATED COMPLETION DATE:	ONGOING
TOTAL REVENUE EXPECTED (2023):	\$0
TOTAL EXPENSE REQUESTED (2023):	\$586,690
(2024):	\$611,532
TOTAL CAPITAL REQUESTED (2023):	\$0

I. Executive Summary

This fiscal outlines NAIC senior management’s proposal for the addition of six and one half (6.5) full-time employees (FTEs) to address urgent regulatory support and operational business needs. A summarized listing of the requested staff is as follows:

One FTE for the following:

- Market Data Analyst II to support the collection, review, and distribution of NAIC’s Market Information Databases. These databases have experienced significant growth by expanding the number of lines of business being captured, resulting in a staffing need to support the collection and validation of market regulation information.
- Principle-Based Reserve (PBR) Life Actuary Analyst to support ongoing PBR initiatives; the VM-50, Experience Reporting Requirements, and VM-51, Experience Reporting Formats annual experience data collection project; complete various modeling activities; and provide staff support for changes to the *Valuation Manual*.
- Property/Casualty Rate Modeling Junior Analyst to meet the increasing demand for rate reviews submitted by members. With 32 jurisdictions submitting rate review requests, current staff is unable to keep up with the volume. The turnaround is currently 30-45 days compared to the 30-day or less requirement in most statutes. Demand for this service is anticipated to grow as additional jurisdictions become aware of this service offering.
- Solutions Architect to support the design and implementation of short- and long-term strategic goals for managing and maintaining numerous systems and software

applications. Specifically, the architect will support the six application development teams of the Market, Financial, and Licensing (MFL) Systems Department within the Information Technology Group (ITG) organization. MFL supports the systems of several critical functions of the NAIC including the platforms utilized by Financial Regulatory Affairs, Market Regulation, and Member Services Divisions.

- Talent Acquisition Manager within the People Operations and Engagement Division function to support the increasingly difficult and time-consuming responsibilities of attracting, interviewing, hiring, and onboarding new talent at the NAIC and its affiliates.
- People Operations Business Partner to support responsibilities of maintaining a highly committed and engaged workforce throughout the NAIC, NIPR, and Insurance Compact. This position will play a critical role of ensuring employee satisfaction and company culture are maintained in a manner to successfully retain talent in today's hyper-competitive business environment. To ensure unimpeded support for regulators and operations, employee engagement and satisfaction are critical to assure turnover remains at minimal levels. Due to the unique regulatory support role of the NAIC, heightened turnover not only impacts the NAIC, but also inflicts hardship on insurance departments.

One-half FTE for the following:

- Business Initiatives Specialist to support customers who purchase publications and data products, license services, or utilize various NAIC applications. In addition, the increase in employment hours will be utilized to support the *OPT/ins* application, which continues to experience increasing demand.

II. Expanded Position Descriptions and Justifications

Each of these positions is critically important to ensure the NAIC is able to provide the level of service required to support insurance regulators. Additional information about each position is provided in this section.

Market Data Analyst II (Market Regulatory Services)

The Market Data Team has four market data analysts and a market data manager who ensure data files received from member jurisdictions are loaded into the NAIC's Market Information Databases. This work primarily focuses on filing of complaint data from insurance departments to the NAIC Complaint Database System (CDS), regulatory actions to the NAIC Regulatory Information Retrieval System (RIRS), and company filings of Market Conduct Annual Statement (MCAS) data. Insurance departments rely on all three data sets for ongoing market analysis and rely on RIRS data for producer licensing.

Each analyst works with 13 jurisdictions to ensure their CDS and RIRS data sets are current, complete, and accurate. This work includes error analysis, review of record deletions, and working with the jurisdictions during system updates to ensure enhancements are correctly implemented and data is not lost.

The continued expansion of MCAS lines of authority is a primary driver for the need to add a market data analyst. The MCAS lines of business have grown from four, when the collection of MCAS data was originally centralized at the NAIC in 2010, to nine lines of business (annuity, disability income, health, homeowners, lender-placed home & auto, life, long-term care, private flood, and private passenger auto) for the 2021 data year, collected in 2022. In addition to the nine current lines of business, new MCAS reporting for travel insurance and short-term limited

duration plans was added for the 2022 data year, to be collected in 2023, with continued expansion for other health products in 2024. Additional enhancements to MCAS reporting and increased MCAS lines of business are anticipated.

Each new line of business results in increased workload for the analyst, which includes responding to inquiries regarding submission of MCAS data, increased review of validation failures, increased documentation, and additional yearly testing of the MCAS application. In addition to the duties with CDS, RIRS, and MCAS data, the analyst team also assists with data calls implemented through the Regulatory Data Collection (RDC) tool. They work to set up the data calls within RDC, address questions, and assist industry with data submission issues.

Without additional resources, services provided to insurance regulators will continue to be constrained. The potential for reporting issues will increase as new MCAS lines of business are added. Additional resources in the market data analysis area will assist in supporting the collection of accurate, complete, and timely market regulation data to assist the NAIC members in their mission of consumer protection.

PBR Life Actuary Analyst (Financial Regulatory Services)

Continued development and regulatory actions supported by the Life Actuarial (A) Task Force have created the need for a PBR Life Actuary Analyst to provide ongoing support for the VM-50 and VM-51 annual experience data collection project; perform AXIS actuarial modeling; support upcoming Economic Scenario Generator (ESG) calculations and VM-22 field tests; and perform annual analysis of mortality improvements for setting prescribed VM-20 assumptions.

The *Valuation Manual* designates the NAIC as the Experience Reporting Agent responsible for collecting and analyzing company mortality experience data annually and providing reports for regulators and the Society of Actuaries (SOA). The project officially begins the second quarter each year and initial company submissions are due September 30. NAIC staff are expected to provide feedback on data exceptions to companies within 30 days of their submissions. Final corrections from companies are due by December 31. With the information provided in the submissions, NAIC actuarial staff then create an aggregated file for the SOA by May 31 of the following year. This information is then used in the development of industry mortality tables.

This project requires a major time commitment from all Financial Regulatory Services (FRS) actuarial staff during data collection and review. Significant reporting, development work, and training for staff, regulators, and company participants are required.

The NAIC's first mortality experience data collection was conducted in 2021, with a total of 108 companies submitting data representing approximately 85% of industry claims. The scope of data collection is expected to grow over time due to future VM-51 amendments. Future enhancements include 1) collection of accelerated underwriting, simplified issue, and guaranteed issue mortality experience, which would greatly increase the number of data fields requested and increase the number of participating companies; 2) variable annuity policyholder behavior experience; and 3) other types of experience data (e.g., fixed annuity mortality and lapses). A *Valuation Manual* amendment for item 1 was exposed for comments and is likely to be re-exposed in late 2022.

The NAIC is also engaged in AXIS modeling projects to support regulators in analyzing the impacts of potential *Valuation Manual* amendments. In 2023, model office testing will support an industry field test of PBR for non-variable annuities under VM-22. Annual AXIS modeling will also be needed to analyze the impact of historical and future mortality improvements to update VM-20 prescribed assumptions for Life PBR.

Model office testing involves the use of common insurance product liabilities and supporting assets and attempts to replicate real-life results that would occur within the industry if a certain change was made to the valuation standards (e.g., the use of a new ESG, or implementation of PBR for non-variable annuities). It is anticipated that many companies will participate in the ESG and VM-22 field tests. However, there are certain limitations of company data that can be better addressed via the use of model office testing. Specifically, model office testing can provide supplementary insights and increased transparency to support regulator decision making regarding ESG calibration and features. Also, additional sensitivities or specific analyses requested by regulators can be conducted using model office testing that may be impractical to include in field testing due to limited company resources or other factors. The addition of a staff member to the limited actuarial resources on the FRS team will allow the NAIC to perform these additional duties.

Property/Casualty Rate Modeling Junior Analyst (Research and Actuarial Services)

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

There are 32 member jurisdictions with signed Rate Review Support Services Agreements. These agreements permit participants to request technical rate reviews and grants access to the NAIC's Property/Casualty (P/C) Shared Model Database supported by the Research and Actuarial Services Division.

Since its inception in May 2020, the NAIC rate model review team has produced 192 rate filing reports. The volume of requests has been steadily increasing and demand is anticipated to grow as the existence of these services become more widely known. This has been evidenced as the number of jurisdictions requesting rate reviews has increased from 10 in 2020 to 18 in 2022.

The team began in August 2020 with one actuarial data scientist and one consultant and was expanded in the third quarter 2021 to three actuarial data scientists and one consultant to meet the increased demand. In terms of the rate review process, each review takes up to two weeks to initially draft. Additional time is often needed to re-review the proposal after the jurisdiction sends up to three rounds of objections, to which the company responds.

In an ever-changing business environment, jurisdictions need to have the reviews turned around as quickly as possible, often to meet statutory deadlines. However, current NAIC staff capacity makes it impossible to keep up with state demand. Most jurisdictions have statutes which designate that unless a response is received within a specific timeframe (often 30 days from the original submission date), the rate request is automatically approved. However, the NAIC rate model review team can rarely meet the 30-day deadline and operates under a 45-day turnaround schedule. For 2022, the NAIC has been unable to meet the turnaround requirements due to the growing number of requests.

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

- Draft technical actuarial reports and provide guidance to regulators about insurance company filed rate models.

- Evaluate content provided by insurance companies and comment on whether the filing provides appropriate actuarial support for the rates based on the filed model.
- Review company objection responses for completeness against NAIC Technical Report Guidelines.
- Identify any additional follow-up objections for potential regulatory action.
- Complete final reports once all objections have received a satisfactory response.
- Draft final executive summaries and post all work to the P/C Shared Model Database.
- Participate in team peer reviews of work products.

Services provided to insurance regulators will continue to be constrained if additional resources are not approved, and the rate model team will continue to operate with a 45-day wait for reviews to receive an initial response.

Solutions Architect (Information Technology Group)

A business need exists for an additional Solutions Architect in ITG who will support the six application development teams of the MFL systems department. MFL provides system support for several critical functions of the NAIC, partnering with Financial Regulatory Affairs, Market Regulation, and Member Services Divisions to support insurance regulators with software products and services.

The MFL teams develop, support, and maintain mission critical systems such as the Consumer Insurance Search (CIS); Financial Analysis Solvency Tools (Profiles, Scoring, Handbook); Financial Data Repository (FDR); iSite+; Life Insurance Policy Locator; Market Conduct Annual Statement (MCAS); Online Fraud Reporting System (OFRS); Regulatory Data Collection (RDC); and Uniform Certificate of Authority Application (UCAA).

A Solutions Architect is responsible for designing and implementing short- and long-term strategic goals for managing and maintaining numerous systems and software applications. This involves gathering business requirements and functional specifications and assessing current software systems to identify and prioritize areas in need of improvement. This position will provide system expertise and architectural assistance to other IT personnel within MFL, including software development teams.

Currently MFL has two Solutions Architects who support six development teams and 150 applications. The existing Solutions Architects do not have capacity to adequately support the teams, resulting in development and rollout delays and reduced software quality and reliability. MFL's ability to provide insurance regulators with reliable, secure, and timely software capabilities that meet their needs will be diminished without this additional resource. The approval of this Solutions Architect resource will position MFL to be able to deliver quality software in a timely manner that support and strengthen the tools required by insurance regulators.

Talent Acquisition Manager (People Operations and Engagement Division)

The People Operations and Engagement Division has a business need for a Talent Acquisition Manager to support ongoing responsibilities of attracting, interviewing, hiring, and onboarding new talent at the NAIC, NIPR, and Insurance Compact. Since all positions are linked to regulatory support, it is vitally important to fill them as soon as possible. The longer positions remain open, the greater the negative impact on member projects, products, and services.

Recruiting and hiring talent has become more challenging and time consuming during the past year as there are more vacant positions throughout the United States than there are people to fill them, resulting in a very competitive market for limited talent. The Talent Acquisition

Manager's requirements and responsibilities have expanded to include more proactive recruiting measures that take time to plan and implement for each open position.

This position is responsible for full-cycle talent acquisition activities, including attracting, interviewing, hiring, and onboarding, with other summarized duties as follows:

- Leverage diverse candidate pipelines to promote open positions and reach the broadest group of qualified candidates for each position.
- Align talent acquisition processes and policies with business goals.
- Partner with colleagues on the team and throughout the organization to improve talent acquisition processes that enhance the candidate and employee experience.
- Continuously coach, train, and build the skills of hiring managers to select, onboard, and retain a diverse and inclusive workforce.

The People Operations and Engagement Division's ability to attract, interview, and hire in a timely manner will continue to be hindered without this additional resource. In an ever-changing business environment, one in which possible candidates are quickly hired by competing companies, the ability to seek out, rapidly identify, and hire suitable candidates is critically important. This additional resource will greatly improve the recruiting capabilities of the NAIC, NIPR, and Insurance Compact.

Time spent on recruiting activities of NIPR and the Insurance Compact is reimbursed through the services agreements with each entity.

People Operations Business Partner (People Operations and Engagement Division)

A Business Partner to support ongoing responsibilities of maintaining a highly committed and engaged workforce throughout the NAIC, NIPR, and Insurance Compact is needed in the People Operations and Engagement Division.

The recent and continually changing business environment has necessitated a much greater emphasis on key business processes related to attracting, integrating, developing, engaging, and retaining today's top talent. This position plays a key role in maintaining a pulse on how employees are experiencing the NAIC and its affiliates, along with completing the steps required to retain talent in today's hyper-competitive business environment.

This position is responsible for a variety of responsibilities, with key items summarized as follows:

- Ensure managers and employees have the support, resources, and training needed to best utilize the available products, policies, and processes of the NAIC.
- Manage and administer the company employee recognition program.
- Ensure all positions have current and accurate job descriptions.
- Complete ongoing research related to compensation structures.
- Organize and deliver training programs including new hire orientation.
- Partner with managers in employee relations matters, provide employees with coaching and development feedback, perform investigations, and offer support and assistance throughout the progressive disciplinary process.

Employee engagement is critically important as it is fundamental to ensuring employees are committed to helping their organization achieve its goals. With the global workforce changing, the pace of which was elevated during the pandemic, ensuring employees have and retain a strong mental and emotional connection to their place of work will ensure the services the NAIC provides to members, insurers, and consumers will remain at a high standard.

Business Initiatives Specialist (Financial and Business Services Division)

The Strategic Business Initiative (SBI) team has a business need to increase the current part-time Business Initiatives Specialist to a full-time position. Today, the Business Initiatives Specialist supports a wide variety of NAIC customers, including those who purchase publications and utilize NAIC securities-related applications such as the Automated Valuation Service (AVS+), Structured Securities, and VISION. The specialist sets up new customers and accounts, processes billing, updates customer records, and provides general support as needed.

In addition to product support, the need to increase the hours of this role is in response to growing customer demand related to NAIC's *OPT^{ins}* application. *OPT^{ins}* is an electronic filing solution, facilitating the filing and submission of premium tax, surplus line tax, and various other state-specific tax filings and assessments. The platform is now utilized by 29 jurisdictions and setup for new filers is expanding continuously. Further, the SBI team is assuming the responsibility for customer setup and support of the NAIC's System for Electronic Rates and Forms Filing (SERFF) starting in 2023. As the Business Initiatives Specialist is tasked with support of both applications, ongoing growth of these offerings will be constrained without this additional resource.

III. Key Deliverables

To ensure the NAIC's ability to support these key responsibilities, the hiring process for these positions is expected to begin following approval of the fiscal during the NAIC 2022 Fall National Meeting. The new full-time positions are expected to be hired and brought on board within the first few months of 2023. The expansion of the existing part-time Business Initiatives Specialist to full time is anticipated to occur in January.

IV. Financial and Organizational Impact

The financial impact of this project, consisting of salaries and benefits, will be \$586,690 in 2023; \$611,532 in 2024; and \$638,231 in 2025 (See **Attachment I**).

There will be an operational impact to bringing these new positions on board. People Operations and Engagement will be needed to help the various departments find and hire the best candidates for each position. Finance will need to establish the positions in the payroll system.

V. Risk Management Plan

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

IV. Security Impact

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

2023 Budget

**2023 Staffing Requests
Project Cost Analysis**

**Anticipated Start Date: January 2023
Anticipated Completion Date: Ongoing**

Description	2023 Budget	2024 Budget	2025 Budget
Expenses:			
Salary and Benefits	\$586,690	\$611,532	\$638,231
Total Expenses	586,690	611,532	638,231
Revenues Over (Under) Expenses	<u>(\$586,690)</u>	<u>(\$611,532)</u>	<u>(\$638,231)</u>

**2023 BUDGET
UNRESTRICTED NET ASSETS (UNA)**

	Total UNA	Regulatory Modernization Fund (1)	Available UNA
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) (2)	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) (2)	4,472,258		
2019 Ending Balance	149,409,188	\$2,137,890	\$147,271,298
2020 Revenues Over/(Under) Expenses	16,942,908		
Defined Benefit Plan Adjustment (FAS 158) (2)	344,954		
2020 Ending Balance	166,697,050	\$2,377,511	\$164,319,539
2021 Revenues Over/(Under) Expenses	15,153,223		
Defined Benefit Plan Adjustment (FAS 158) (2)	3,596,963		
2021 Ending Balance	185,447,236	\$2,669,398	\$182,777,838
2022 Projected Revenues Over/(Under) Expenses	(18,975,589)		
2022 Projected Ending Balance	166,471,647	\$2,497,075	\$163,974,572
2023 Revenues Over/(Under) Expenses	(6,360,915)		
2023 Ending Balance Before Fiscal Impact Statements	160,110,732	\$2,401,661	\$157,709,071
2023 Fiscal Impact Statements	3,933,168		
2023 Ending Balance After Fiscal Impact Statements	\$164,043,900	\$2,460,659	\$161,583,241

UNRESTRICTED NET ASSETS

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

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

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

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 \$78,400. 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.

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

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

Operating Reserve Policy

On August 10, 2022, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee adopted an operating reserve policy based on a report from the independent consulting firm hired to review NAIC's operating reserves, which established a new methodology. The recommendation was based on analysis of NAIC's working capital and strategic needs as well as current and future identified risks. NAIC's operating reserve is currently established with a minimum target reserve of \$169.6 million. Prior to August 10, 2022, the NAIC's operating reserve was measured as a target range - 83.4% to 108.2% - based on next year's operating expenses.