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THE INSURANCE COMPACT TODAY
https://www.insurancecompact.org

UNIFORM PRODUCT STANDARDS AND APPROVAL
The Interstate Insurance Product Regulation Compact (Insurance Compact) is an innovative, state-based agreement to modernize the regulatory approval of asset-based insurance products. Through the collective efforts of 45 Compacting States, the Insurance Compact develops detailed and comprehensive uniform product standards containing balanced and strong consumer protections. Companies submit one product for thorough review by an experienced regulatory team of reviewers and actuaries. The Insurance Compact serves the need for uniformity, speed-to-market and regulatory compliance in a national state-regulated insurance marketplace.

MULTI-STATE ENTITY
The Insurance Compact established a multi-state public body, the Commission, which serves as an instrumentality of the Compacting States. Each Compacting State is an official member – usually the Insurance Commissioner – of the Commission. Nearly 100 uniform product standards have been implemented so far through an open, transparent rulemaking process that requires adoption by a minimum two-thirds or “supermajority” of the entire membership.

Once a Uniform Standard is adopted, the Insurance Compact serves as the central point of electronic filing, review, and approval for these insurance products. The Insurance Compact is revenue neutral for state budgets. State filing fees are collected and remitted electronically for all Compact filings. The Insurance Compact is funded by separate fees from filing companies.

CURRENT PRODUCT LINES:
★ Individual Life
★ Individual Annuity
★ Individual Long-Term Care
★ Individual Disability Income
★ Employer Group Term Life
★ Employer Group Disability Income

CURRENT STATES
44 States and Puerto Rico have adopted the Insurance Compact legislation to date, representing 75% of the premium volume nationwide.

COMPACT BENEFITS
The Insurance Compact has defined speed-to-market by providing product approval in less than 60 days, with a thorough and transparent upfront review process.

Compacting States retain sovereign authority over their insurance marketplace and actively participate in ensuring uniform standards provide insurance consumers with strong and established protections.

Consumers benefit from ensuring these mobile-borne products are subject to thorough prior review using consistent, detailed standards.

Companies benefit from getting a form/product to market in a competitive, efficient, cost-effective, and streamlined manner across the Compacting States.
LETTER FROM THE OFFICERS

We are pleased to present the Interstate Insurance Product Regulation Commission Annual Report for 2018 demonstrating significant achievements in many noteworthy areas of its operations. The Insurance Compact, created in 2004 and operationalized in 2007, has standardized and simplified the regulatory product approval process for annuities, life, long-term care and disability income insurance products for Compacting States, insurers, and the consumers they both serve. In 2018, the Insurance Compact carried on its foundational purpose of providing a collaborative, transparent and state-based mechanism for Compacting States to achieve consistency, uniformity and speed-to-market for asset-protection insurance products.

In 2018, the Insurance Compact members accomplished key milestones in terms of uniform standards development. Several amendments were made to the Uniform Standards for individual disability income insurance policies, originally adopted in 2012, completing the eighth phase of its five-year review process. The Product Standards Committee conducted a several-month comment and discussion period to identify gaps in individual life insurance and annuities Uniform Standards resulting in adoption by the membership of a priority list for future standards development. The development of new Uniform Standards in the newest product line – group annuities – also got well underway.

The Insurance Compact also had a banner year in terms of growth in revenue, registered companies and product filing submissions. The Insurance Compact ended 2018 with record operating revenue and was net positive with $141,000 over operating expenses. Last year saw the biggest jump in filing volume in the Insurance Compact’s operational history, from 1,132 submissions in 2017, to 1,438 in 2018. With the state regulatory deadline for life insurers to convert their products to the 2017 Commissioners Standard Ordinary (CSO) Mortality Tables by January 1, 2020, a record 233 companies, including 18 new filing companies, submitted new and updated products for approval by the Insurance Compact on behalf of the Compacting States.

This trend is that more companies are choosing to utilize the Insurance Compact’s filing platform. The Insurance Compact provides a consistent, responsive review under uniform product requirements. Further, Compacting States are assured a thorough and transparent prior review is being performed for compliance with detailed, comprehensive and consumer-oriented Uniform Standards by qualified reviewers and actuaries.

We are also pleased to be welcoming the District of Columbia as the 46th member jurisdiction with the Insurance Compact legislation being adopted by the Council of the District of Columbia in 2018 to take effect in 2019.

We invite you to review the tremendous progress made in 2018. We also wish to convey our gratitude to the Commissioners, member regulators, state legislators, company filers, and consumer and industry representatives who are involved in the Insurance Compact’s development. Please join us in 2019 as we undertake a comprehensive, member-driven strategic planning process.
OFFICERS

Director
Jillian Froment
Chair

Superintendent
Elizabeth Kelleher Dwyer
Vice Chair

Director
Chlora Lindley-Myers
Treasurer

PAST OFFICERS IN 2018

Director
Dean L. Cameron
Treasurer
LETTER FROM THE EXECUTIVE DIRECTOR

The Annual Report serves as both an opportunity to reflect on the accomplishments of the Interstate Insurance Product Regulation Commission (Commission) and to recognize the dedicated efforts of Commissioners, regulators, state legislators, consumer and industry representatives, and company filers who have actively contributed to its successes and progress.

Last year, the Commission made great strides in the Uniform Standards development process. The amendments to the Uniform Standards for individual disability income insurance products adopted by the Commission as part of a Five-Year Review became effective in November 2018. After a gap analysis, the Commission adopted a roadmap for future standards development for individual life and annuity products and benefit features, which is already underway. The Commission’s Product Standards Committee found time to start drafting Uniform Standards for its newest product line of group annuities, which it expects to consider for adoption in 2019.

In 2018, the Commission Office provided informational support to the District of Columbia’s Department of Insurance, Securities and Banking as the Council considered and enacted the Compact legislation. When the District of Columbia becomes a member in March 2019, the Compacting States will number 46, representing 75% of the nationwide premium volume for products within the Insurance Compact’s authority.

The Commission’s product filing statistics for 2018 tell an impressive story of growth as more companies submitted more filings for Commission-approval on behalf of the Compacting States, driving down the percentage of mix-and-match filings to 34%. Many of these companies chose the uniformity and efficiency of filing with the Insurance Compact to comply with 2017 CSO Mortality Table regulatory requirements by January 1, 2020.

Since 2017, the Insurance Compact Office has been participating as an amicus curiae, or friend of the court, in third-party litigation. In October 2018, the federal court in the District of Colorado recognized the Insurance Compact is a proper delegation by a state legislature. This matter is currently on appeal before the U.S. Court of Appeals for the Tenth Circuit.

In 2018, the Commission welcomed three new members to the Consumer Advisory Committee, filling all open seats. The National Conference of State Legislatures and the National Council of Insurance Legislators both made new appointments to the Commission’s Legislative Committee. The Commission expressed heartfelt thanks to several legislators for their years of service on the Committee and enthusiasm to work with the incoming legislators on this important initiative.

The Insurance Compact Office rolled out several enhancements to its website to provide easier navigation and detailed information for the Uniform Standards under development. It also advanced its social media profile by joining Twitter to update followers of Compact activities in real-time under the handle, @InsCompact.

We hope you enjoy reviewing the accomplishments outlined in this Annual Report. We encourage you to take pride in the efforts of Commissioners, regulators and legislators in Compacting States as well as consumer and industry representatives and filing companies who have worked to ensure the Insurance Compact fulfills its statutory mission and purposes. On behalf of the Insurance Compact Office, thank you and we invite you to actively engage in the strategic planning process underway in 2019.

Karen Z. Schutter

Executive Director
COMMITTEE ACTIVITIES

The Insurance Compact relies upon the regulatory expertise in the member states to develop, adopt, and oversee implementation of Uniform Standards, Rules, and Operating Procedures, as well as the budget, technology platform, and the Insurance Compact's outreach efforts. The Management Committee is charged with managing the affairs of the Commission and looks to the following Insurance Compact committees to formulate recommendations and solicit public comments on a variety of rulemaking and operational matters.

The **Audit Committee** regularly reviews the Insurance Compact’s financial accounts and reports and oversees the independent audit process, including retaining and working with the independent auditors.

2018: Bruce R. Ramge (NE), Chair; Scott A. White (VA), Vice Chair

The **Communications Committee** handles the outreach agenda for the Insurance Compact and oversees the informational webinars offered to member regulators and industry filers; as well as promote dialogue between regulators, companies, legislators, and others.

2018: Ted Nickel (WI), Chair; Ralph T. Hudgens (GA), Vice Chair

The **Finance Committee** monitors the finances of the Insurance Compact. In 2018, the Finance Committee prepared the annual budget, including monitoring the actual and projected revenues and expenses, as well as resource levels. In 2018, updates to the Filing Fee Structure were proposed to include the first ever increase in Annual Registration Fees, in addition to new categories for these fees.

2018: Dean L. Cameron (ID), Chair; Jim L. Ridling (AL), Vice Chair

The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee. In 2018, the Product Standards Committee reviewed and amended the individual disability income Uniform Standards under the Five-Year Review process. The Committee also began development and review of uniform standards for group annuity products.

2018: Chlora Lindley-Myers (MO), Chair; Jessica Looman (MN), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2018, the Rulemaking Committee reviewed and proposed a form for the submission of comments related to the Five-Year Reviews of Uniform Standards, Rules and Operating Procedures.

2018: Scott A. White (VA), Chair; John D. Doak (OK), Vice Chair

The **Technology Committee** reviews and recommends any enhancements to the Insurance Compact filing platform within the NAIC’s System for Electronic Rate and Form Filing (SERFF), and monitors the technology needs for the Insurance Compact.

2018: Mike Causey (NC), Chair; John D. Doak (OK), Vice Chair
MEMBERSHIP (AS OF DECEMBER 31, 2018)

Jim L. Ridling
Commissioner, Alabama Department of Insurance

Lori K. Wing-Heier
Director, Alaska Division of Insurance

Keith Schraad
Director, Arizona Department of Insurance

Allen W. Kerr
Commissioner, Arkansas Insurance Department

Michael Conway
Interim Commissioner, Colorado Division of Insurance

Katharine L. Wade
Commissioner, Connecticut Insurance Department

Ralph T. Hudgens
Commissioner, Georgia Office of Insurance & Fire Safety Commissioner

Gordon I. Ito
Commissioner, Hawaii Insurance Division

Dean L. Cameron
Director, Idaho Department of Insurance

Karin Zosel
Interim Director, Illinois Department of Insurance

Stephen W. Robertson
Commissioner, Indiana Department of Insurance

Doug Ommen
Commissioner, Iowa Insurance Division

Ken Selzer
Commissioner, Kansas Insurance Department

Nancy G. Atkins
Commissioner, Kentucky Department of Insurance

James J. Donelon
Commissioner, Louisiana Department of Insurance

Eric A. Cioppa
Superintendent, Maine Bureau of Insurance

Al Redmer, Jr.
Commissioner, Maryland Insurance Administration

Gary D. Anderson
Commissioner, Massachusetts Division of Insurance

Patrick M. McPharlin
Director, Michigan Department of Insurance & Financial Services

Jessica Looman
Commissioner, Minnesota Department of Commerce

Mike Chaney
Commissioner, Mississippi Insurance Department

Chlora Lindley-Myers
Director, Missouri Department of Insurance

Matthew M. Rosendale
Commissioner, Montana Commissioner of Securities & Insurance

Bruce R. Ramge
Director, Nebraska Department of Insurance

Barbara Richardson
Commissioner, Nevada Division of Insurance

John Elias
Commissioner, New Hampshire Insurance Department

Marlene Caride
Commissioner, New Jersey Department of Banking & Insurance

John G. Franchini
Superintendent, New Mexico Office of Superintendent of Insurance

Mike Causey
Commissioner, North Carolina Department of Insurance

Jillian Froment
Director, Ohio Department of Insurance

John D. Doak
Commissioner, Oklahoma Insurance Department

Andrew Stolfi
Commissioner, Oregon Division of Financial Regulation

Jessica K. Altman
Commissioner, Pennsylvania Insurance Department

Javier Rivera Rios
Commissioner, Puerto Rico Office of the Commissioner of Insurance

Elizabeth Kelleher Dwyer
Superintendent, Rhode Island Division of Insurance

Raymond G. Farmer
Director, South Carolina Department of Insurance
Julie Mix McPeak
Commissioner, Tennessee
Department of Commerce and Insurance

Kent Sullivan
Commissioner, Texas
Department of Insurance

Todd E. Kiser
Commissioner, Utah
Insurance Department

Michael S. Pieciak
Commissioner, Vermont
Department of Financial Regulation

Scott A. White
Commissioner, Commonwealth of Virginia State Corporation Commission, Bureau of Insurance

Mike Kreidler
Commissioner, Washington
Office of the Insurance Commissioner

Allan L. McVey
Commissioner, West Virginia
Offices of the Insurance Commissioner

Ted Nickel
Commissioner, Wisconsin
Office of the Commissioner of Insurance

Tom Glause
Commissioner, Wyoming
Insurance Department

2018 Past Members Who Served

Leslie R. Hess, Arizona
Jennifer Hammer, Illinois
Roger A. Sevigny, New Hampshire
MANAGEMENT COMMITTEE

The Management Committee is formed on an annual basis during the Annual Meeting and is comprised of fourteen members representing three tiers of the premium volume. The Compact State’s premium volume, as calculated by the National Association of Insurance Commissioners (NAIC) based on the records of the preceding year, determines which tier a member may represent. The first tier members are from the six Compacting States with the largest premium volume. The second tier is comprised of four members from Compacting States with at least 2% of the market share based on the premium volume. These four members are selected on a rotating basis. The third tier is four members elected from each of the four NAIC Zones and represent Compacting States with less than 2% of the premium volume. The Officers are selected by the Commission from the membership of the Management Committee during the Annual Meeting to serve in the following calendar year.

Management Committee, 2018 - 2019

Jillian Froment, Ohio, Chair
Elizabeth Kelleher Dwyer, Rhode Island, Vice Chair
Chlora Lindley-Myers, Missouri, Treasurer
Ralph T. Hudgens, Georgia
Dean L. Cameron, Idaho
Karin Zosel, Illinois
Doug Ommen, Iowa
Anita G. Fox, Michigan
Jessica Looman, Minnesota
Marlene Caride, New Jersey
Mike Causey, North Carolina
Jessica K. Altman, Pennsylvania
Kent Sullivan, Texas
Allan L. McVey, West Virginia

Management Committee, 2017 - 2018

Jillian Froment, Ohio, Chair
Elizabeth Kelleher Dwyer, Rhode Island, Vice Chair
Dean L. Cameron, Idaho, Treasurer
Ralph T. Hudgens, Georgia
Jennifer Hammer, Illinois
Stephen W. Robertson, Indiana
Doug Ommen, Iowa
Al Redmer, Jr., Maryland
Patrick M. McPharlin, Michigan
Marlene Caride, New Jersey
Mike Causey, North Carolina
Jessica K. Altman, Pennsylvania
Kent Sullivan, Texas
Allan L. McVey, West Virginia
ADVISORY COMMITTEES

Consumer Advisory Committee

• AARP
  James McSpadden, Senior Legislative Representative
• Autism Speaks
  Angela Lello, Director, Housing and Community Living
• Center for Insurance Research
  Brendan Bridgeland, Policy Director and Staff Attorney
• Consumer Liaison Representative
  Yvonne Hunter
• Consumer Liaison Representative
  Fred Nepple
• Consumer Liaison Representative
  Roger Sevigny
• NAIC Consumer Liaison Representative
  Peter Kochenburger
• National Alliance on Mental Illness
  Andrew Sperling, Director, Federal Legislative Advocacy

Industry Advisory Committee

• American Council of Life Insurers (ACLI)
  Emily Micale, Senior Counsel
• America’s Health Insurance Plans (AHIP)
  Amanda Matthiesen, Senior Policy Director
• Insured Retirement Institute (IRI)
  Jason Berkowitz, Vice President and Counsel, Regulatory Affairs
• National Association of Insurance and Financial Advisors (NAIFA)
  Steve Kline, Director, State Government Relations
• Allianz Life Insurance Company of North America
  Pam Koch, Product Contracting Senior Director, Actuarial Product Development
• Mutual of Omaha
  Shawn Pollock, Director, Regulatory Risk Management
• Nationwide
  Charles Perin, Senior Consultant, Office of Government Relations
• Pacific Life
  Michael Hitchcock, Product Compliance Director

LEGISLATIVE COMMITTEES

Legislative Committee 2017–2018

Senator Travis Holdman, Chair
State of Indiana

Representative Sam Kito, Vice Chair
State of Alaska

Senator Jason Rapert
State of Arkansas

Senator Rosalyn H. Baker
State of Hawaii

Representative Steve Riggs
Commonwealth of Kentucky

Senator Delores Kelley
State of Maryland

Senator Robert D. Hackett
State of Ohio

Representative Bill Botzow
State of Vermont

Legislative Committee 2018–2019

Senator Bob Duff
State of Connecticut

Representative Matt Dollar
State of Georgia

Representative Laura Fine
State of Illinois

Representative Matt Lehman
State of Indiana

Senator Dan “Blade” Morrish
State of Louisiana

Assemblywoman Maggie Carlton
State of Nevada

Representative James Dunnigan
State of Utah
INSURANCE COMPACT MILESTONES

18
- Completed the Five-Year Review on the Individual Disability Income Uniform Standards and began the review of group annuity uniform standards
- Washington, DC enacted the Compact legislation becoming the 46th Compacting State
- 233 companies registered; 1,438 products submitted and 1,226 products approved, with an average review time of 25 days
  - Mix and Match percentage = 34%
  - 109 filings amended

17
- Completed the Five-Year Review of the Individual LTC Uniform Standards and began the Five-Year Review process on the adopted Individual Disability Income Uniform Standards
- Connecticut became the 45th Compacting State effective for filing
- 228 companies registered; 1,132 products submitted and 976 products approved, with an average review time of 20 days
  - Mix and Match percentage = 44%
  - 137 filings amended

16
- Adopted Group Disability Income Uniform Standards; 100 Uniform Standards adopted
- 45 Compacting States
- 226 companies registered; 1,059 products submitted and 976 products approved, with an average review time of 30 days
  - Mix and Match percentage = 50%
  - 229 filings amended

15
- 44 Compacting States
- 205 companies registered with 863 products submitted and 829 products approved with an average review time of 33 days
  - Mix and Match percentage = 51%
  - 197 filings amended

14
- 44 Compacting States
- 198 companies registered; 999 products submitted and 879 products approved, with an average review time of 27 days
  - Mix and Match percentage = 55%
  - 220 filings amended

13
- Adopted Group Term Life Uniform Standards (Employer Group); 93 Uniform Standards
- 43 Compacting States
- 182 companies registered; 806 products submitted and 769 products approved, with an average review time of 28 days
  - Mix and Match percentage = 57%
  - 251 filings amended
INSURANCE COMPACT MILESTONES

2012
- Adopted 4 Group Term Uniform Standards; 86 Uniform Standards
- 41 Compacting States
- 167 companies registered; 744 products submitted and 625 products approved, with an average review time of 23 days
- Mix and Match percentage = 62%
- 157 filings amended

2011
- Adopted 9 DI Uniform Standards; 82 Uniform Standards
- 41 Compacting States
- 133 companies registered; 464 products submitted and 436 products approved, with an average review time of 38 days
- Mix and Match percentage = 63%
- 361 filings amended

2010
- Adopted Individual LTC Uniform Standards; 69 Uniform Standards
- 38 Compacting States
- 113 companies registered; 368 products submitted and 320 products approved, with an average review time of 42 days
- Mix and Match percentage = 63%
- 233 filings amended

2009
- 54 Uniform Standards
- 36 Compacting States
- 75 companies registered; 244 products submitted and 279 products approved, with an average review time of 28 days
- Mix and Match percentage = 75%
- 185 filings amended

2008
- 49 Uniform Standards
- 33 Compacting States
- 39 companies registered; 106 products submitted and 126 products approved, with an average review time of 25 days
- Mix and Match percentage = 75%
- 59 filings amended

2007
- 31 Uniform Standards
- 30 Compacting States
- 36 products submitted and 29 products approved; first Insurance Compact filing submitted June 22nd and approved in under 30 days
- Mix and Match percentage = 100%
- 11 filings amended
The tables below provide statistics on the product filings submitted to the Insurance Compact through December 31, 2018.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Registered</td>
<td>233</td>
<td>228</td>
<td>226</td>
<td>205</td>
<td>198</td>
<td>182</td>
<td>167</td>
<td>133</td>
<td>113</td>
<td>75</td>
</tr>
<tr>
<td>Products Received</td>
<td>1,438</td>
<td>1,312</td>
<td>1,059</td>
<td>863</td>
<td>999</td>
<td>806</td>
<td>744</td>
<td>464</td>
<td>368</td>
<td>244</td>
</tr>
<tr>
<td>Forms Submitted</td>
<td>4,163</td>
<td>4,130</td>
<td>3,835</td>
<td>3,326</td>
<td>3,205</td>
<td>2,657</td>
<td>2,595</td>
<td>1,588</td>
<td>1,456</td>
<td>1,314</td>
</tr>
<tr>
<td>Amended Filings</td>
<td>109</td>
<td>137</td>
<td>229</td>
<td>197</td>
<td>220</td>
<td>251</td>
<td>157</td>
<td>78</td>
<td>40</td>
<td>185</td>
</tr>
<tr>
<td>Products Approved</td>
<td>1,226</td>
<td>1,158</td>
<td>976</td>
<td>829</td>
<td>876</td>
<td>769</td>
<td>625</td>
<td>436</td>
<td>320</td>
<td>279</td>
</tr>
<tr>
<td>Transactions*</td>
<td>42,862</td>
<td>37,925</td>
<td>31,455</td>
<td>26,016</td>
<td>26,164</td>
<td>24,066</td>
<td>19,063</td>
<td>13,685</td>
<td>8,446</td>
<td>7,494</td>
</tr>
<tr>
<td>Approval Time (avg)**</td>
<td>25</td>
<td>20</td>
<td>30</td>
<td>33</td>
<td>27</td>
<td>28</td>
<td>23</td>
<td>38</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td>States/Filing (median)**</td>
<td>42</td>
<td>41</td>
<td>40</td>
<td>40</td>
<td>41</td>
<td>39</td>
<td>39</td>
<td>37</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Mix &amp; Match</td>
<td>34%</td>
<td>44%</td>
<td>50%</td>
<td>51%</td>
<td>55%</td>
<td>57%</td>
<td>62%</td>
<td>63%</td>
<td>63%</td>
<td>75%</td>
</tr>
<tr>
<td>State Filing Fees Collected</td>
<td>$3,142,679</td>
<td>$2,639,337</td>
<td>$2,439,645</td>
<td>$2,077,363</td>
<td>$2,302,532</td>
<td>$1,856,432</td>
<td>$1,728,081</td>
<td>$992,506</td>
<td>$735,683</td>
<td>$499,942</td>
</tr>
<tr>
<td>Compact Filing Fees</td>
<td>$1,390,576</td>
<td>$1,057,246</td>
<td>$1,086,736</td>
<td>$681,045</td>
<td>$749,452</td>
<td>$649,929</td>
<td>$407,788</td>
<td>$274,127</td>
<td>$225,442</td>
<td>$130,900</td>
</tr>
</tbody>
</table>

* "Transactions" refers to the total number of SERFF transactions that have been made through the Insurance Compact.

** The time for product approval is calculated utilizing business days and excludes the company response time to objection letters, as defined in §105 of the “Product Filing Rule”.

Historical Filing Data (2008–2018)
PRODUCT FILING TRENDS

There are more than 22 Types of Insurance (TOIs) available for filing using the 100 adopted Uniform Standards, with 130 various sub-TOIs available.

7,649 products have been approved by the Insurance Compact to date since June 2007, which equates to over 240,700 SERFF transactions.

The TOIs for the Product Filings submitted through SERFF for Compact Filings 2018:

LIFE (64% of all products received):
- 31% have been TOI – Other (generally application filings)
- 26% have been Term Life Products
- 22% have been Whole Life Products
- 15% have been Flexible Premium Adjustable Life Products
- 3% have been Variable Life Products
- 2% have been Group Life Term Products
- 1% have been Endowment Products

ANNUITIES (23% of all products received):
- 46% have been Deferred Non-Variable Annuity Products
- 25% have been Annuity – Special
- 18% have been Deferred Variable Annuity Products
- 6% have been Immediate Non-Variable Annuity Products
- 5% have been TOI – Other (generally application filings)

LONG-TERM CARE (11% of all products received)

DISABILITY INCOME (2% of all products received):
- 77% have been Individual Disability
- 23% have been Group Disability

Of all of the Registered Companies who have submitted filings since 2007:
- 6% have filed more than 75 times
- 5% have filed 50 or more times
- 21% have filed 20 or more times
- 18% have filed 10 or more times
- 39% have filed more than twice
- 11% have filed once; of the 2018 Registered Companies 8% are first time filers

There have been 28,777 forms submitted with product filing submissions. The average number of forms per filing is 3. The largest single submission consisted of 103 forms (filed in 2013); and in 2018, the largest single submission consisted of 57 forms.
MANAGEMENT’S DISCUSSION & ANALYSIS

Please Note: The Interstate Insurance Product Regulation Commission’s management discussion and analysis is separate from and not a part of its basic financial statement nor included in its Independent Auditors’ Report. RSM US LLP has not audited this information and expresses no opinion on the information contained herein.

Introduction
The Interstate Insurance Product Regulation Commission (Insurance Compact) is a public entity and instrumentality of its member states charged with carrying out regulatory insurance product reviews for asset-based insurance products under Uniform Standards adopted by its membership. 2018 was the eleventh full year of revenue-generating operations. The Insurance Compact’s 2018 Annual Report includes the independent auditors report with information on the actual financial results of the organization. This Management Discussion & Analysis report is not a part of the annual external audit examination and is included to provide management’s analysis of the organization’s financial performance in relation to the previous year.

Financial Highlights
The Insurance Compact’s financial statements are prepared using the accrual basis of accounting. Revenues, expenses, assets, and liabilities are recognized during the period in which the activity occurs rather than when it is received or paid.

Balance Sheet
Normal operating activities have resulted in cash and cash equivalents balance of $1,102,581 as of December 31, 2018. This is an increase of $486,992 compared to the prior year. The Insurance Compact saw a marked increase in filing volume due to the companies updating previously-approved products or filing new products to move to the 2017 Commissioners Standards Ordinary (CSO) Mortality Table, which is regulatorily required by January 1, 2020. The Insurance Compact actual-to-budget revenue ratio for 2018 was 104.3%. Operating expenses of $2,251,139 were under budget by $41,767, and $162,988 above last year’s operating expenses.

The Insurance Compact ended the year with accounts receivable of $14,476, which is $8,274 less than 2017. This is a function of revenue received on the last day of December 2018 that was satisfied by electronic payments on the first day of January 2019 and fluctuates each year. Prepaid expenses are $6,845 which is $995 more than one year ago.

Total current liabilities are $1,023,330, an increase of $263,399 compared to 2017 due in large part to the deferred revenue. In 2018, the Insurance Compact received $829,850 in deferred revenues which was $226,950 more than in 2017. Deferred revenue represents the annual registration fee paid in 2018 for the 2019 annual registration period. The number of companies submitting their 2019 annual registrations in 2018 remained the same as the previous year. The increase in revenue is primarily attributed to the first-ever increase in annual registration fees for companies with $1 billion or more in asset-based premium volume from $5,000 to $10,000 effective for 2019 annual registrations. The amounts for accounts payable and accrued expenses are due to timing of payments to vendors, employees, and consultants.

In 2018, the Insurance Compact collected and remitted $3,142,679 to states in applicable state filing fees, which was an increase of $503,342 over the amount of state filing fees remitted in 2017. This increase is due to an increased filing volume in 2018 when compared to 2017 and increases in certain state filing fees, especially affecting states with a retaliatory fee structure.
The change in net assets equaled $141,269 for 2018 compared to a net deficit of $84,594 in 2017. This is the second time in operational history the Insurance Compact ended the year with a decrease in the net deficit (in 2013, the net assets equaled $19,199). The net asset deficit presents a cumulative loss on operations of $3,275,594 in 2018 as compared to $3,416,813 in 2017 and is the result of all revenues and expenses since inception. For the sixth consecutive year, the Insurance Compact did not draw upon the line of credit that was approved by the National Association of Insurance Commissioners (NAIC) during the 2018 Spring National Meeting. Management forecasts that the Commission will generate sufficient revenue to cover its operating expenses in 2019 without a need for an available line of credit.

Statement of Revenues, Expenses, and Changes in Net Assets

The Insurance Compact is a public entity and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company registers with the Insurance Compact and submits product filings to the Insurance Compact through the NAIC’s System for Electronic Rate and Form Filing (SERFF). The IIPRC Terms and Procedures for IIPRC Filing Fees was adopted in September 2007 and provides that the Insurance Compact adopt its Schedule of Fees in conjunction with the adoption of its annual budget. In 2013, the Insurance Compact modified its fee schedule to attract small premium volume companies to register and to more accurately reflect the resources and operating costs associated with product filings requiring an actuarial review. In 2016, the Insurance Compact further adjusted its per-filing fee to account for five additional resources added over the past five years. In 2018, the Insurance Compact adjusted the date which companies could pay a pro-rated annual registration from July 1 to October 1.

The Insurance Compact requires an annual registration fee which provides access to the filing platform. For 2018, the annual registration fee was $5,000, the same amount set in 2008, per company with a premium volume greater than $50 million. A company’s asset-based premium volume is based on the Schedule T-Part 2 of the Annual Statement filed with the NAIC for the reporting year prior to the current annual registration period. The date for pro-rating the registration fees was changed to October 1st and starts at $2,500 per company. For companies with less than $50,000,000 in premium volume, the annual registration fee is $2,500 per company and prorated to $1,250 per company as of October 1st. In 2016, the Insurance Compact increased its per-filing fee by an average of 25% with filing fees for product filing submissions ranging from $300 to $1,250, depending on the type of filing and the premium-volume size of the company. Regional companies licensed to do business in 12 or fewer compacting states pay a reduced registration and per-filing fee.

Product filing fees were $1,390,576 in 2018, compared to $1,057,246 in 2017, an increase of $333,330 or 32%. Overall, the Insurance Compact experienced a 22% increase in product filings year over year. Part of this increase included an 18% increase in actuals over budgeted volume for filing submissions that require an actuarial review and are associated with a higher fee. In 2017, the actuals were 91% of budget for this category. Products submitted increased from 1,132 in 2017 to 1,438 in 2018 in this category. The increase in product filing activity was also accompanied by a continued decrease in the number of Mix and Match filings, from 44% in 2017 to 34% in 2018, as more companies file their entire product portfolios with the Insurance Compact.

Annual registration fees of $992,775 for 233 companies were earned in 2018, compared to $943,226 for 228 companies in 2017. Eighteen companies registered for the first time in 2018 compared to 12 new companies in 2017. In 2018, companies and fraternals of all sizes, including the top premium writers as well as small regional carriers, realized the uniformity and speed-to-market benefits of having a Compact-approved product.
Expenses of $2,251,139 ended the year under budget by $41,767 or 1.8%, for 2018 compared to expenses of $2,088,151 in 2017. The Insurance Compact was under budget in all line items except salaries which was $20,853 or 2% over budget. The accrued vacation liability of the organization in the amount of $7,994 attributed to this line item exceeding budget. Actual travel expenses of $93,920 were $53,228 under budgeted travel. The decrease in travel expenses year over year is due to the budgeted travel costs for the Compact Team, member Commissioners and regulators as well as members of the Legislative Committee and Consumer Advisory Committee not being fully realized.

On June 1, 2007, the Insurance Compact signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the Insurance Compact. The NAIC receives an annual administrative fee of $125,000 for these services. The Insurance Compact also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. In 2018, the Insurance Compact’s net revenue of $141,269 triggered, for the first time, a provision in the Services Agreement requiring an additional fee to the NAIC for services, facilities and equipment. This provision provides for an adjustable administrative fee equal to 5% of every $25,000 of net revenue in excess of expenses earned by the Commission. The amount due to the NAIC based on 2018 is $6,250 which will be recorded in 2019.

Debt
The note payable to the NAIC totals $3,376,116 as of the end of 2018. This is a $75,045 increase over the prior year due to the capitalization of interest on the outstanding loan amount. For the sixth consecutive year, the Insurance Compact did not draw upon the line of credit available from the NAIC. Since 2007, the NAIC has provided lines of credit to the Insurance Compact to fund operational needs. The resulting note payable carries an interest rate of 2.25% equal to the prime rate of 3.25% at January 1, 2010, the effective date of the debt restructure, less 1%. Principal and interest payments are deferred until the year following the year in which the Insurance Compact achieves a profit of $250,000 or an accumulated cash balance from operations of $500,000 excluding funds from draws. Outstanding interest is capitalized monthly.

Economic Factors
The Insurance Compact accepted its first product filings in June 2007 and completed its eleventh full calendar year of product filing review operations in 2018. The Insurance Compact has approved a total of 7,649 products which would have translated into more than 240,700 individual state filing transactions. The Insurance Compact generated $2,000,472 in 2017 and $2,383,351 in 2018 in combined revenue. The Insurance Compact also collected and remitted state filing fees in the amount of $2,639,337 in 2017 and $3,142,679 in 2018.

The actual product filings were above budgeted product filings in all categories except for regional companies with more than $50,000,000 in premium volume. The Insurance Compact budgeted for significant filing activity resulting from companies required to update or file new life insurance product to comply with state regulatory requirements with respect to the 2017 Commissioners Standards Ordinary (CSO) Mortality Table by or before January 1, 2020.

In 2018, the Insurance Compact received a record 233 company registrations from large, medium, and small insurance companies and fraternals representing a combined 85% of the nationwide premium volume written for asset-based insurance products. Eighteen of these companies registered for the first time joining the returning companies whose total number, 215, exceeded the number of companies registered in all of 2015 which was 205. Further, 95% of these 233 companies registered under the full registration schedule with the remainder registering after October 1st when the registration fee is prorated. This trend demonstrates that companies are continuously filing with the Insurance Compact preferring its one-stop review and approval process to the traditional state-by-state filing process.
The Insurance Compact received 1,438 products for 2018, 27% more than the 1,132 product filings received in 2017. The Insurance Compact was well-positioned to accept those filings providing quick turnaround after a thorough review with an average turnaround time of 25 review days.

The operating expenses of the Insurance Compact grew by approximately 8% between 2017 and 2018. The primary driver of the Insurance Compact's significant growth in operational costs over the past 10 years of product operations is scaled growth in human resources as the Insurance Compact has expanded over time as the number of member states, registered companies, product lines, Uniform Standards, and product filing volume and activity has expanded. Salaries were $1,276,018 in 2018 compared to $1,213,707 in 2017. This increase was largely due to merit increases and promotions. Professional services were $436,382 in 2018 compared to $386,910 in 2017. The increase in professional services is due to an increase in outside counsel expenses associated with federal third-party litigation questioning the constitutionality of the Insurance Compact and enforceability of a Compact-approved product. The Insurance Compact Office participated as an amicus curiae, and the district court issued an order in October 2018, finding the Insurance Compact was a proper delegation of authority, which is currently under appeal in the United States Court of Appeals for the Tenth Circuit.

With careful management of its operating budget, the Insurance Compact has not utilized the available NAIC Line of Credit since 2012. The Insurance Compact does not expect to request an additional line of credit in 2019.

**Contacting the Insurance Compact's Financial Management**

This financial report is designed to provide a general overview of the Insurance Compact's finances and to show accountability for the funds received in 2018 and 2017. Questions about this report and requests for additional financial information should be directed to Karen Schutter, Insurance Compact Executive Director, at (202) 471-3962.
AUDIT REPORT

INDEPENDENT AUDITOR’S REPORT

To the Audit Committee

Interstate Insurance Product Regulation Commission

Report on the Financial Statements
We have audited the accompanying financial statements of the Interstate Insurance Product Regulation Commission (the IIPRC), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IIPRC as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri

March 13, 2019
### AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$1,102,581</td>
<td>$615,589</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>14,476</td>
<td>22,750</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>6,845</td>
<td>5,850</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,123,902</td>
<td>$644,189</td>
</tr>
<tr>
<td><strong>Liabilities and Net Deficit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$53,399</td>
<td>$33,035</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>140,081</td>
<td>123,996</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>829,850</td>
<td>602,900</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$1,023,330</td>
<td>759,931</td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note payable to the NAIC (Note 3)</td>
<td>$3,376,116</td>
<td>$3,301,071</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$4,399,446</td>
<td>$4,061,002</td>
</tr>
<tr>
<td>Net deficit:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without donor restrictions</td>
<td>(3,275,544)</td>
<td>(3,416,813)</td>
</tr>
<tr>
<td><strong>Total liabilities and net deficit</strong></td>
<td>$1,123,902</td>
<td>$644,189</td>
</tr>
</tbody>
</table>

See notes to financial statements.
### AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**

**STATEMENTS OF ACTIVITIES**

Years Ended December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual registrations</td>
<td>$992,775</td>
<td>$943,226</td>
</tr>
<tr>
<td>Product filing fees</td>
<td>1,390,576</td>
<td>1,057,246</td>
</tr>
<tr>
<td>Interest income</td>
<td>9,057</td>
<td>3,085</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>2,392,408</td>
<td>2,003,557</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>1,276,016</td>
<td>1,213,707</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>331,872</td>
<td>296,301</td>
</tr>
<tr>
<td>Professional services</td>
<td>432,969</td>
<td>386,910</td>
</tr>
<tr>
<td>Travel</td>
<td>93,920</td>
<td>82,700</td>
</tr>
<tr>
<td>Rental and maintenance</td>
<td>7,601</td>
<td>7,885</td>
</tr>
<tr>
<td>Interest expense</td>
<td>75,045</td>
<td>73,377</td>
</tr>
<tr>
<td>Insurance</td>
<td>14,667</td>
<td>15,348</td>
</tr>
<tr>
<td>Office services</td>
<td>13,134</td>
<td>9,890</td>
</tr>
<tr>
<td>Meeting expenses</td>
<td>5,915</td>
<td>2,033</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>2,251,139</td>
<td>2,088,151</td>
</tr>
<tr>
<td><strong>Changes in net deficit without donor restrictions</strong></td>
<td>141,269</td>
<td>(84,594)</td>
</tr>
</tbody>
</table>

Net deficit, beginning of year

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3,416,813)</td>
<td>(3,332,219)</td>
</tr>
</tbody>
</table>

Net deficit, end of year

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (3,275,544)</td>
<td>$ (3,416,813)</td>
</tr>
</tbody>
</table>

See notes to financial statements.
## AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

### STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in net deficit without donor restrictions</td>
<td>$ 141,269</td>
<td>$ (84,594)</td>
</tr>
<tr>
<td>Adjustments to reconcile changes in net deficit without donor restrictions to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense included in note payable</td>
<td>75,045</td>
<td>73,375</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>8,274</td>
<td>(1,473)</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>-</td>
<td>102</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(995)</td>
<td>(437)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>20,364</td>
<td>(26,400)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>16,085</td>
<td>16,281</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>226,950</td>
<td>1,650</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>486,992</td>
<td>(21,496)</td>
</tr>
</tbody>
</table>

**Net increase (decrease) in cash**

|                                                              |          |          |
| Cash:                                                        |          |          |
| Beginning                                                    | 615,589  | 637,085  |
| Ending                                                       | $ 1,102,581| $ 615,589|

See notes to financial statements.
Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multistate commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use its expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. The IIPRC had 45 member states as of December 31, 2018 and 2017.

Basis of accounting for revenues: The IIPRC earns revenue predominately through annual registration and product filing fees. Product filing fees are earned when insurance companies process filings through the National Association of Insurance Commissioners’ (the NAIC) System for Electronic Rate and Form Filing (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states. Annual registration fees are recognized as revenue at the beginning of the registration period and are assessed at year-end as deferred revenue.

Basis of accounting and presentation: The financial statements of the IIPRC have been prepared on the accrual basis of accounting. During 2018, the IIPRC adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net asset classes from three to two. The new classes are net assets without donor restrictions and net assets with donor restrictions. The changes in this new standard have been reflected in the financial statements for the years ended December 31, 2018 and 2017.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: For purposes of the statements of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds. The IIPRC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amounts billed. Delinquent and/or uncollectible receivables are written off based on individual evaluation and specific circumstances.

Net deficit: At December 31, 2018 and 2017, net deficit consisted entirely of net deficit without donor restrictions.

Functional expenses: The Not-for-Profit Entities topic of the FASB Accounting Standards Codification (ASC) requires nonprofit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2018 and 2017, statements of activities, as there is only one program (member services) with multiple service offerings. Therefore, management does not allocate expenses between program and supporting expenses. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole and, therefore, does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.
Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income tax provision: The IIPRC has been organized as a joint-cooperative of the compacting states and is therefore generally exempt from federal and state income taxes pursuant to section 115(1) of the Internal Revenue Code. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC filed a Private Letter Ruling (PLR) Request with the IRS, dated January 22, 2015, with respect to exclusion of its income from gross income pursuant to section 115(1) of the Internal Revenue Code. The IRS did not issue a ruling on the PLR Request. Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standards that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2018 or 2017.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018. Therefore, this ASU will be effective for the IIPRC for the fiscal year ending December 31, 2019. The ASU permits the use of either of two methods: a full retrospective or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the IIPRC is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The IIPRC has no lease obligations but is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 2. Liquidity and Availability of Resources

The IIPRC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2018, the following financial assets are available to meet annual operating needs of the 2019 fiscal year:

Financial assets at year-end:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,102,581</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>14,476</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td><strong>$1,117,057</strong></td>
</tr>
</tbody>
</table>

The IIPRC has various sources of liquidity at its disposal, including cash and accounts receivable.
Note 3. Line of Credit From and Notes Payable to the NAIC
On January 1, 2010, an Amended, Restated and Consolidated Promissory Note with the NAIC took effect. The note consolidated all previous outstanding note and line-of-credit balances and bears interest at 2.25 percent, compounded monthly. Repayment of principal and interest is deferred until the last calendar date of the first quarter following the trigger date. The trigger date is defined as the date of the independent auditor’s report related to the audited financial statements in which one or both of the following has been achieved: increase in net assets of at least $250,000, or accumulated cash balance of at least $500,000 from operations, excluding funds from draws. As of December 31, 2018, the trigger date has not been achieved and, as a result, the outstanding interest is included in the principal balance of the note. Following the trigger date, the note will mature in 60 months and bear interest at 2.25 percent, compounded monthly. Quarterly principal and interest payments will be due through maturity.

Also on January 1, 2010, a line-of-credit agreement with the NAIC was executed. This agreement made available to the IIPRC an additional line of credit not to exceed $850,000, with an interest rate of 2.25 percent, compounded monthly. Repayment terms are identical to the Amended, Restated and Consolidated Promissory Note described above. The deferral of debt repayment reduced draws on this line of credit to $450,000.

A $400,000 line-of-credit agreement for 2011, effective January 1, 2011, was executed with the NAIC. An advance of $250,000 was drawn in August 2011, and another in the amount of $150,000 occurred in November 2011.

A $400,000 line-of-credit agreement for 2012, effective January 1, 2012, was executed with the NAIC. An advance of $250,000 was drawn in October 2012.

A $250,000 line-of-credit agreement for 2013, effective January 1, 2013, was executed with the NAIC. No advances were drawn during 2013.

A $150,000 line-of-credit agreement for 2014, effective January 1, 2014, was executed with the NAIC. No advances were drawn during 2014.

A $150,000 line-of-credit agreement for 2015, effective January 1, 2015, was executed with the NAIC. No advances were drawn during 2015.

A $250,000 line-of-credit agreement for 2016, effective January 1, 2016, was executed with the NAIC. No advances were drawn during 2016.

A $100,000 line-of-credit agreement for 2017, effective January 1, 2017, was executed with the NAIC. No advances were drawn during 2017.

A $100,000 line-of-credit agreement for 2018, effective January 1, 2018, was executed with the NAIC. No advances were drawn during 2018.

The total outstanding principal and interest balance of the note payable and lines of credit as of December 31, 2018 and 2017, is $3,376,116 and $3,301,071, respectively. As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allow the NAIC to call the remaining principal balance and all accrued interest for immediate payment. Management of the IIPRC does not plan to request a line of credit, nor does it expect the NAIC to demand payment of any portion of the outstanding balance during fiscal year 2019.
Note 4. Related-Party Transactions
Effective June 2007, the IIPRC entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a nonexclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet the IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of $125,000 for the years ended December 31, 2018 and 2017. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

Amounts charged during the year and amounts owed at year-end for the IIPRC are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative services provided by and paid to the NAIC</td>
<td>$125,000</td>
<td>$125,000</td>
</tr>
<tr>
<td>License fee paid to the NAIC</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Amounts payable to the NAIC</td>
<td>$36,536</td>
<td>$31,294</td>
</tr>
</tbody>
</table>

Note 5. Defined Contribution Plan
The IIPRC has a 401(a) defined contribution plan, which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2018 and 2017, the IIPRC agreed to match up to 3.5 percent of compensation of employees who contribute to the plan and contributed 2.0 percent of all employees’ annual compensation. The IIPRC made contributions of $63,937 and $60,240 for the years ended December 31, 2018 and 2017, respectively.

Note 6. Subsequent Events
Management has performed an evaluation of events that have occurred subsequent to December 31, 2018, through March 13, 2019. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2018.
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