

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION (IIPRC)

**** FINAL Budget adopted 2/28/2007****

REVISED 2007 Proposed Budget

Detail of Revenues and Expenses

	2006	2007	2007	Increase
	YTD	Original	REVISED	(Decrease)
	Actuals	Proposed	Proposed	REV v. Original
		Budget	Budget	
<u>REVENUES</u>				
Balance as of 1/1/07	\$ 168,518	\$ -	\$168,518	\$168,518
Assessment Fees	-	-	50,000	50,000
Interest Income	-	-	4,000	4,000
NAIC Line of Credit	-	-	725,000	725,000
<u>TOTAL REVENUES</u>	\$168,518		\$947,518	\$947,518
<u>OPERATING EXPENSES</u>				
Salaries	14,135	317,700	328,500	10,800
Temporary Personnel/Interns	-	5,000	3,000	(2,000)
Payroll Taxes	2,608	24,699	20,470	(4,229)
Employee Benefits	65	7,060	31,198	24,488
Employee Development	-	6,000	7,000	1,000
Professional Services	155,954	44,500	280,000	235,500
Travel	21,387	57,400	110,400	53,000
Meetings	40,077	19,500	53,000	33,500
Equipment Rental/Maintenance	350	-	8,700	8,700
Depreciation	-	750	750	-
Interest Expense	-	-	50,000	50,000
Insurance	3,024	7,500	15,000	7,500
Office Services	19,241	24,000	35,500	11,500
Other Expenses	74,641	2,500	4,000	1,500
<u>TOTALS</u>	331,482	516,609	947,518	431,259
REVENUES OVER (UNDER) EXPENSES			\$	-

IMPORTANT NOTE: This REVISED budget proposal was prepared based on best estimates and expectations of the Interstate Insurance Product Regulation Commission (IIPRC) startup costs and projected operations into 2007. The purpose of this REVISED proposal is to illustrate this best estimate. Estimates may change and evolve as the IIPRC commences its operations, completes further work in the area of national standards, and begins to receive and review its first filings in mid 2007. The assumptions of this REVISED proposal contain a measure of uncertainty as to whether the resources will be more or less than adequate during the start-up phase of the IIPRC. The Year to Date Actuals listed in this REVISED copy are as of 12/31/06, but may include best estimates and are subject to final year-end reconciliation.

**** FINAL Budget adopted 2/28/2007****
IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Revenues

Description	2006 YTD Balance	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Account Balance as of 1/1/07 [1]	\$168,518.00	\$ -	\$ 168,518	\$ 168,518
Compact Assessment Fees [2]	-	-	50,000	50,000
Interest Income [3]	-	-	4,000	4,000
NAIC Line of Credit [4]	-	-	\$725,000	725,000
TOTAL	\$ 168,518	\$ -	\$ 947,518	\$ 947,518

- [1] See Compact Bylaws Article XII 1. "...Commission may accept contributions and other forms of funding from NAIC, Compacting States or Other sources." The NAIC provided sponsorship funding for the startup of the Interstate Insurance Product Regulation Commission ("IIPRC"). In March 2006, the NAIC Internal Administration (EX1) Subcommittee approved a \$500,000 grant to the IIPRC to fund startup costs which were deposited into the IIPRC's account upon the beginning of its operations in the 3rd Quarter 2006. As of December 31, 2006, expenses in the amount of \$331,482 were charged/or are in the process of being charged to the IIPRC's account, subject to final year-end reconciliation. The total amount of funds remaining in the IIPRC's account after all 2006 expenses that will be carried over as revenue into 2007 is estimated to be \$168,518, subject to final year end reconciliation.
- [2] For purposes of determining appropriate IIPRC filing fees, there are two possible options used to estimate anticipated fees revenue for 2007: (1) an IIPRC fee per filing that applies to each company, plus the collection of the appropriate fee for each state, if applicable, for which the filing company requests IIPRC approval or (2) an annual "registration" fee for use of the IIPRC and a flat filing fee schedule, inclusive of the appropriate state fees required. It is anticipated that during 2007, there will be "test" filings made by companies with the IIPRC, and it may be forecasted that the IIPRC would not receive more than \$50,000 in total filing fees and/or registrations plus fees.
- [3] Interest may be earned by placing IIPRC funds in an interest-bearing account. However, in the first years, IIPRC funds will be limited. Assuming a money market rate of 2% on a possible general balance of \$200,000, interest may total \$4,000 for 2007.
- [4] It is proposed that the NAIC would extend a Line of Credit to the IIPRC beginning in March 2007. The proposed terms indicate the IIPRC may draw upon the line of credit four (4) times annually at increments of \$500,000 each. Interest and repayment terms will be applicable. It is anticipated that the IIPRC would draw down \$250,000 in the first quarter of 2007, \$225,000 in the 2nd quarter of 2007, and \$250,000 in the 3rd quarter of 2007.

BUDGET ITEM: Salaries

ITEM DESCRIPTION: Includes salary for four Commission employees.

Description	2006	2007	2007	Increase
	YTD	Original	REVISED	(Decrease)
	Expenses	Budget	Budget	REV v. Original
Salaries -- Employees [1] [2] [3]	\$ 14,135	\$ 317,700	\$ 328,500	\$ 10,800
Overtime [4]	-	-	-	-
TOTAL	\$ 14,135	\$ 317,700	\$ 328,500	\$ 10,800

[1] The original projected salaries included an Executive Director and two (2) Senior Life and Health Rate and Form Analysts. An estimated merit increase of 4% was used for purposes of projecting 2007 salaries within this budget proposal.

[2] No turnover factor was applied for the initial hiring year.

[3] Upon a hiring needs analysis by the Executive Director, three hires will be required for 2007, including a new position which was not originally included in the budget, but was approved by the Management Committee in December 2006: (1) an Administrative Coordinator; (2) a Senior Life and Health Rate/Form Analyst; and (3) a Junior Life and Health Rate/Form Analyst. The Senior Analyst position may be hired on a consultancy basis for 2007. The total REVISED budgeted salaries for 2007 includes (1) one full year salary for the Executive Director; (2) one year of salary for the Administrative Coordinator; (3) 10 months of salary for the Senior Analyst (which may also be paid on a consultancy basis); and (4) 6 months of salary for the Junior Analyst.

[4] No overtime is anticipated for 2007.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Temporary Personnel

ITEM DESCRIPTION: Fees paid to outside agencies and wages paid to interns for additional personnel during peak work periods.

<u>Description</u>	2006	2007	2007	Increase
	YTD	Original	REVISED	(Decrease)
	Expenses	Budget	Budget	REV v. Original
Temporary Personnel [1]	\$ -	\$ 5,000	\$ -	\$ (5,000)
Interns [2]	-		3,000	3,000
TOTAL	\$ -	\$ 5,000	\$ 3,000	\$ (2,000)

[1] No temporary personnel is envisioned for 2007.

[2] Interns may be hired in 2007 on a university/law school credit basis. Stipends to cover expenses may be offered at a rate consistent with interim-adopted NAIC policies.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Payroll Taxes

ITEM DESCRIPTION: FICA, unemployment compensation and FUTA costs incurred for all Compact employees

Description	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Payroll Taxes [1] [2]	\$ 2,608	\$ 24,699	\$ 20,470	\$ (4,229)
TOTAL	\$ 2,608	\$ 24,699	\$ 20,470	\$ (4,229)

[1] Tax estimates are calculated as 7.65% of total IIPRC wages as illustrated in the Salaries section of this budget proposal.

[2] Unemployment compensation has been estimated on the first \$9,000 of each individual salary for Washington D.C. employees; and anticipated costs for federal unemployment insurance at the first \$7,000 of individual salary.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Employee Benefits

ITEM DESCRIPTION: Includes all pension, life and health insurance costs paid by Compact for its employees.

Description	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Pension [1]	\$ -	\$ 5,206	\$ 5,600	\$ 394
Health/Employee Benefits [2] [3] [4]	65	1,854	25,598	23,744
TOTAL	\$ 65	\$ 7,060	\$ 31,198	\$ 24,138

No pension would be earned by employees during their first year of employment. A 457 plan and 401 (a) plan are being put into effect for Commission employees as approved by the Management Committee in December 2006. There would not be any contributions in 2007 for any employees given that there is a one year wait period for each employee. The earliest contributions would be made in January 1, 2008. There is a set-up fee for the pension plans which is approximately \$5,600 payable in 2007.

[1]

[2]

Employee health benefits are estimated based upon current NAIC/NIPR employees benefits and their plan type selections.

[3]

Group life and disability benefits are estimated based upon current NAIC/NIPR employee experience.

[4]

Other employee benefits are estimated on similar benefits offered to NAIC employees in Washington, DC.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Employee Development

ITEM DESCRIPTION: Includes fees for seminars, training courses and professional association memberships paid by Compact.

<u>Description</u>	2006	2007	2007	Increase
	YTD	Original	REVISED	(Decrease)
	Expenses	Budget	Budget	REV v. Original
Education Reimbursements [1]	\$ -	\$ -	\$ -	-
Professional Dues [2]	-	3,000	3,000	-
Professional Training [3]	-	3,000	4,000	1,000
TOTAL	\$ -	\$ 6,000	\$ 7,000	\$ 1,000

[1] Educational reimbursements are only available to those employees who are actively pursuing college degrees and only apply toward tuition for those courses that specifically relate to and enhance the employee's job responsibilities. This expense is not anticipated for 2007.

[2] Professional association dues represent employee membership in various professional associations, such as the Society of Insurance Licensing Administrators (SILA).

[3] Professional training represents the registration fees for professional seminars, trade workshops and education programs. This budget proposals estimates \$1,000 per staff member beginning in 2007.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Professional Services

ITEM DESCRIPTION: Fees paid to outside resources for information systems, professional and legal services and cash management.

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) Rev v. Original
NAIC Services Agreement [1]	\$ -	\$ -	\$ 125,000	\$ 125,000
Professional Services -- SERFF [2]	\$ 126,902	0***	\$ 95,000	\$ 95,000
Professional Services -- Legal Services [3]	29,052	25,000	50,000	25,000
Professional Services -- Cash Management [4]	-	15,000	10,000	(5,000)
Professional Services - Actuarial [5]	-	4,500	-	(4,500)
TOTAL	\$ 155,954	\$ 44,500	\$ 280,000	\$ 235,500

- [1] The proposed NAIC Services Agreement with the IIPRC provides for NAIC technical, administrative and other services as agreed to the IIPRC for a base fee of \$125,000, including a \$25,000 license fee for SERFF. There is an adjustable service fee contemplated based upon operational levels and filings. Since the IIPRC will only likely receive "test" filings in 2007, the adjustable services fee will not be applicable in 2007.
- [2] Costs associated with making modifications to SERFF to address the following IIPRC filing needs: (1) enable filer to select specific states for which approval is requested; (2) enable states to "opt out"; (3) allow collection of States Fees; (4) incorporate ability to collect a Commission Fee; (5) enable companies to file for multiple companies on a single filing; and (6) enable state read only access to approved filings. Such modifications have been the focus of discussion by the Technology Considerations Working Group. ***\$236,000 was budgeted for 2006 as all SERFF enhancements were anticipated during year 2006, but not actually made pending IIPRC decisions on functionality; only \$126,902 was charged for SERFF enhancements in 2006.
- [3] \$50,000 was estimated in 2006 for outside legal counsel fees for setting up corporate entity, preparing bylaws and articles of incorporation, implementing employee benefits and review of any corporate governance matters. \$25,000 was originally estimated in 2007 for ongoing outside legal counsel fees. Given that legal issues for outside counsel will carry over into 2007, the budget for legal fees is increased.
- [4] \$15,000 was estimated for annual financial statement audit fees, payroll and banking services for 2006 and 2007 respectively. Upon review of the proposed NAIC Services Agreement, the 2007 budget is decreased to \$10,000 for outside audit fees and bank fees.
- [5] \$4,500 was originally projected for actuarial/legal assistance for assisting Commissioners with preparing/presenting the Interstate Compact legislation for their state legislature. It is not anticipated that outside actuarial firms will be utilized in 2007.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Travel

ITEM DESCRIPTION: Includes airfares, hotels, meals, etc., incurred by Compact staff and board members.

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Staff Travel [1]	\$ 4,023	\$ 7,000	\$ 22,400	\$ 15,400
Non-Staff Travel [2]	17,364	50,400	88,000	37,600
TOTAL	\$ 21,387	\$ 57,400	\$ 110,400	\$ 53,000

[1] Original estimates for Staff travel were based on 10 trips at \$700, respectively. The revised 2007 estimates are based upon \$800 per trip (hotel/airfare average cost) for: (1) ED travel to 4 NAIC National Meetings where IIPRC will meet prior to the first day of each national meeting; (2) additional 2 staff to travel to 2 National Meetings; (3) ED travel for 8 trips to assist on Compact legislation in states; (4) ED to travel to NCSL and NCOIL annual meetings; (5) ED to travel on 5 anticipated trips to meet with companies to promote filing with IIPRC; and (6) ED to travel to NAIC Commissioners Retreat.

[2] The revised non-staff travel budget is based upon \$800 per trip (hotel/airfare average cost) to include (1) Commissioners to travel to Annual Meeting (accounting for possible 35 Members of IIPRC in 2007); (2) Compact's 4 Officers to travel for inaugural product filing event; (3) anticipated Product Standards full day meeting for 15 regulators; (4) travel for 8 members of Legislative Committee to Annual Meeting; (5) travel for 8 members of Consumer Advisory Committee to Annual Meeting; and (6) additional expenses of Legislative Committee and Consumer Advisory Committee for travel to additional Compact meetings - 40 trips.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS
 BUDGET ITEM: Meetings

ITEM DESCRIPTION: Includes hotel services, audio visual, and other costs incurred by Compact staff and board members for Compact meetings.

Description	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Meetings [1]	\$ 40,077	\$ 19,500	\$ 53,000	\$ 33,500

[1] 2007 revised budget includes (1) Annual Meeting costs at estimated \$30,000, includes site and associated costs; (2) room costs for audio/visual and beverage at 4 National NAIC Meetings in 2007 for \$2,500 each; (3) room rental and associated costs for proposed Product Standards Meeting in 2007 at \$8,000; and (4) ancillary costs for in-person meetings at DC Office estimated at \$5,000.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Equipment Rental and Maintenance

ITEM DESCRIPTION: Rental and maintenance fees for hardware and software.

<u>Description</u>	YTD Expenses	Original Budget	REVISED Budget	(Decrease) REV v. Original
Equipment Rental	\$ -	\$ -		\$ -
Equipment, Hardware and Software Maintenance [1]	350	-	8,700	8,700
TOTAL	\$ 350	\$ -	\$ 8,700	\$ 8,700

- [1] While leveraging the NAIC's technical infrastructure through the proposed NAIC Services Agreement, the 2007 budget necessarily includes additional technology approximate costs for the following which are not included in the proposed Agreement: purchase of 4 Blackberries for staff, monthly service charges, new computer purchase, desktop printer purchase and related software charges.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Depreciation

ITEM DESCRIPTION: Includes depreciation for all furniture and equipment owned as of 12 31, 2005, with projected purchases through December 31, 200X and depreciation for proposed 200X capital outlays.

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Depreciation [1]	\$ -	\$ 750	\$ 750	\$ -

[1] No owned fixed assets, with the exception of personal computers, are anticipated during the IIPRC's first year of operations. Depreciation would be calculated on a straight-line basis over the useful life of the capital assets owned by IIPRC, which is five years for furniture and equipment, three years for computer hardware and software, and four years for personal computers.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Interest Expense

ITEM DESCRIPTION: Interest expense represents accrued interest payments on amounts owed to the lender.

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Interest Expense [1]	\$ -	\$ -	\$ 50,000	\$ 50,000

[1] With the Line of Credit to be extended by the NAIC to the Compact, it is anticipated that the rate of interest will be at market rate. With a \$725,000 line of credit advanced in 2007, the interest may be estimated at approximately \$50,000 for 2007.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Insurance

ITEM DESCRIPTION: Includes expenses for all general business and liability insurance policies for Compact

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
General Business Insurance [1]	\$ 3,024	\$ 2,500	\$ 2,500	\$ -
Professional Liability Insurance [2]	-	2,500	2,500	-
E/O and D/O [3]	-	2,500	10,000	7,500
TOTAL	\$ 3,024	\$ 7,500	\$ 15,000	\$ 7,500

- [1] General business insurance coverages and related premiums are based on NIPR historical experience.
- [2] Professional liability insurance coverages and related premiums are based on NIPR historical experience.
- [3] Original estimate for only E/O. Revised estimate is for comprehensive insurance coverage.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Office Services

ITEM DESCRIPTION: Includes conference calls, local and long-distance charges for staff, office supplies, non-capital equipment mail and printing services.

Description	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Telephone [1]	\$ 13,025	\$ 7,000	\$ 25,000	\$ 18,000
Other Supplies [2]	598	2,000	2,000	-
Non-Capital Equipment [3]	-	-	1,000	1,000
Mail Services [4]	4,733	7,500	2,500	(5,000)
Printing [5]	885	7,500	5,000	(2,500)
TOTAL	\$ 19,241	\$ 24,000	\$ 35,500	\$ 11,500

- [1] Telephone expense is estimated for IIPRC conference call fees and on-line conference IMeet sessions.
- [2] Other supplies include (1) IIPRC Annual Report printing supplies; and (2) miscellaneous operating supplies including supplies ordered for IIPRC Management Committee presentations.
- [3] There may be minor non-capital equipment purchases planned for as the IIPRC hires staff with supply and or office equipment needs.
- [4] Based on estimated utilization of postage and mail services.
- [5] Based on estimated IIPRC printing for marketing and Annual Report products.

IIPRC PROPOSED 2007 REVISED BUDGET ANALYSIS

BUDGET ITEM: Other Expenses

ITEM DESCRIPTION: Includes expenses incurred for reference materials, personal property taxes, recruiting expenses and bad debt allowance.

<u>Description</u>	2006 YTD Expenses	2007 Original Budget	2007 REVISED Budget	Increase (Decrease) REV v. Original
Reference Materials [1]	\$ -	\$ 2,500	\$ 2,500	\$ -
Recruiting Expense [2]	74,641	-	1,500	1,500
Bad Debt Expense [3]	-	-	-	-
TOTAL	\$ 74,641	\$ 2,500	\$ 4,000	\$ 1,500

[1] Purchase of manuals and reference materials needed to establish a rate and form filing review office in 2006 estimated at \$6,000 in 2006 and \$2,500 in 2007.

[2] Additional hires for 2007 will be advertised locally and through on-line systems nationwide.

[3] Bad debt expense is a provision for future uncollectibility of receivables and is based on total receivables for the Commission. No bad debt expense is anticipated in this budget proposal.