

IIPRC ADOPTED 11-19-07

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION (IIPRC)

FOR	IIPRC ADOPTED 2008 BUDGET Detail of Revenues and Expenses				
	DISCUSSION		PURPOSES		
	2007 ADOPTED BUDGET	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Projected Total	2008 PROPOSED BUDGET
Interest Income					
<b>REVENUES</b>					
Interest Income	\$ 4,000	\$ 4,497	\$ 1,598	\$ 6,095	\$ 8,000
Compact Fees	50,000	1,000	9,000	10,000	475,000
<b>TOTAL REVENUES</b>	54,000	5,497	10,598	16,095	483,000
<b>OPERATING EXPENSES</b>					
Salaries	328,500	164,250	56,837	225,445	348,510
Temporary Personnel/Interns	3,000	-	1,500	1,500	10,000
Payroll Taxes	20,470	11,528	3,843	15,371	19,550
Pension/Employee Ben	31,198	13,236	7,091	20,327	29,831
Employee Dev	7,000	-	1,000	1,000	5,000
Professional Services	280,000	102,373	68,748	171,121	640,000
Travel	110,400	26,315	17,200	43,515	120,600
Meetings	53,000	1,830	5,261	7,091	11,000
Equipment Rental/Maintenance	8,700	866	532	1,398	23,500
Depreciation	750	14,158	7,065	21,223	42,300
Interest Expense	50,000	5,328	1,897	7,225	80,000
Insurance	15,000	14,403	2,313	16,716	23,492
Office Services	35,500	18,573	13,099	31,672	32,260
Other Expenses	4,000	17,817	7,230	25,047	23,710
<b>TOTALS</b>	947,518	390,677	193,616	588,651	1,409,753
REVENUES OVER (UNDER) EXP	\$ (893,518)	\$ (385,180)	\$ (183,018)	\$ (572,556)	\$ (926,753)
NAIC Funding Remaining	\$ 168,518	\$ 122,128	\$ 1,106	\$ 125,153	\$ 123,820
NAIC Line of Credit	725,000	250,000	300,000	550,000	850,000
Total Funding Available	893,518	372,128	301,106	675,153	973,820
2008 Revenue Over/(Under) Expens	(893,518)	(385,180)	(183,018)	(572,556)	(926,753)
Less Non-Cash Items:					
Depreciation	750	14,158	7,065	21,223	42,300
Funds Remaining	\$ 750	\$ 1,106	\$ 125,153	\$ 123,820	\$ 89,367

IMPORTANT NOTE: This budget proposal has been prepared based upon our best estimates and expectations of the Interstate Insurance Product Regulation Commission (IIPRC) operations for the remainder of fiscal year 2007 and into 2008. The IIPRC continues to rely on funding from the National Association of Insurance Commissioners (NAIC) to meet the expenses of its start-up operations. A Grant in the amount of \$500,000 was made by the NAIC in 2006 to start-up the IIPRC, and a Line of Credit was extended in June 2007 in the amount of \$550,000 in order that the IIPRC may continue to cover its operating expenses. The NAIC continues to fully support the goals of the IIPRC and its operations. The IIPRC will be making a request for an additional line of credit to the NAIC in order to cover its continued start-up and operating expenses. It is anticipated by the IIPRC that the NAIC will extend additional line of credit funding to the IIPRC for 2008, following the review and approval of the IIPRC Final 2008 Budget.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Funding

Description	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Funding</b>	<b>2007 Projected Oct/Dec Funding</b>	<b>2007 Total Projected Funding</b>	<b>2008 PROPOSED Budget</b>
2006 NAIC Funding Remainder [1]	\$ 168,518	\$ 122,128	\$ -	\$ 122,128	\$ 123,820
2007 NAIC Line of Credit [2]	725,000	250,000	300,000	550,000	850,000
<b>TOTALS</b>	<b>\$ 893,518</b>	<b>\$ 372,128</b>	<b>\$ 300,000</b>	<b>\$ 672,128</b>	<b>\$ 973,820</b>

- [1] In 2006, the National Association of Insurance Commissioners (NAIC) provided a grant of \$500,000 to the Interstate Insurance Product Regulation Commission (IIPRC) for its start-up, including initial staff hires and for setting up its Washington, DC Office. Approximately \$122,128 of this grant remained as of December 31, 2006, and was "carried over" to the operating year 2007. This amount was utilized for operating expenses incurred during 2007. A contribution is not anticipated for 2008.
- [2] During 2007, the NAIC approved a \$550,000 Line of Credit which was extended to the IIPRC. An initial Advance of Funds under the Line of Credit was drawn upon during June 2007. Draw downs from this line of credit may be taken up to four times per year with 30 days advance notice before the beginning of a quarter. Interest is prime minus 1%, is deferred for one year, and is capitalized. The IIPRC has limited its draw downs to meet expenses and to limit interest accruals. The IIPRC took the remaining Advance of Funds in the amount of \$300,000 during October 2007 to meet its operating expenses for the remainder of 2007. It is expected that approximately \$123,820 of the 2007 Line of Credit will "carry-over" into the beginning of 2008 to meet the IIPRC operating expenses. The IIPRC intends to make a request to the NAIC for an additional Line of Credit in the amount of \$850,000. This would bring the total funding in 2008 to approximately \$973,820.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Revenues

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Interest Income [1]	4,000	4,497	1,598	6,095	8,000
Compact Filing Fees [2]	\$ 50,000	\$ 1,000	\$ 9,000	\$ 10,000	\$ 475,000
TOTALS	\$ 50,000	\$ 5,497	\$ 10,598	\$ 16,095	\$ 483,000

[1] Interest is earned by placing IIPRC available funds in an interest-bearing account. In 2008, assuming a money market rate of 2% on a possible general balance of \$400,000, interest may total \$8000 for 2008.

[2] The IIPRC implemented Compact Filing Fees in September 2007. This includes a \$500 Per Filing Fee as of September 10, 2007 and a \$5,000 Annual Registration Fee per company as of January 1, 2008. With this Compact Filing Fees structure, it is anticipated that the IIPRC may generate \$450,000 in fees during 2008 to partially cover its operating expenses. It is projected that this \$475,000 may include 25 annual company registrations at the beginning of 2008, 50 company annual registrations prorated at mid-year; and 450 Product Filings during 2008.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Salaries

ITEM DESCRIPTION: Includes salary for four Commission employees

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Salaries -- Employees [1] [2] [3]	\$ 328,500	\$ 164,250	\$ 56,837	\$ 221,087	\$ 310,000
Vacation Liability		2,828	1,530	4,358	10,000
Promotion & Adjustments					28,510
Overtime [4]	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 328,500</b>	<b>\$ 167,078</b>	<b>\$ 58,367</b>	<b>\$ 225,445</b>	<b>\$ 348,510</b>

[1] The 2007 total end of year projected expenses are for salaries to include the Executive Director and Coordinator.

[2] An estimated merit increase of 3.7% was used for purposes of projecting 2008 salaries within this budget proposal. No turnover factor was applied for the initial hiring year.

[3] For the 2008 Proposed Budget, the projected salaries include the Executive Director, Coordinator, and one potential new office operations support staff hire. The IIPRC now will contract with two (2) consultants instead of full-time in-office staff beginning in 2008 (see "Professional Services" budget line.)

[4] No overtime is anticipated for 2008.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

BUDGET ITEM: Temporary Personnel/Interns

ITEM DESCRIPTION: Fees paid to outside agencies and wages paid to interns.

Description	2007 ADOPTED Budget	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Total Projected Expenses	2008 PROPOSED Budget
Temporary Personnel [1]	\$ -	\$ -	\$ -	\$ -	\$ -
Interns [2]	3,000	-	1,500	1,500	10,000
<b>TOTAL</b>	<b>\$ 3,000</b>	<b>\$ -</b>	<b>\$ 1,500</b>	<b>\$ 1,500</b>	<b>\$ 10,000</b>

[1] No temporary personnel is envisioned for 2008.

[2] These funds are for IIPRC interns. It is anticipated that there will be two (2) interns hired during each semester, including the Winter/Spring, Fall/Winter and the Summer semesters.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Payroll Taxes

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

Description	2007 ADOPTED Budget	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Total Projected Expenses	2008 PROPOSED Budget
Payroll Taxes [1] [2]	\$ 20,470	\$ 11,528	\$ 3,843	\$ 15,371	\$ 19,550
TOTAL	\$ 20,470	\$ 11,528	\$ 3,843	\$ 15,371	\$ 19,550

[1] Tax estimates are calculated as 7.65% of total IIPRC wages as illustrated in the Salaries sections of this budget proposal. The figure includes: FICA, FICA Turnover, Vacation Liability-FICA, Unemployment Compensation and Federal Unemployment Compensation. The updated figures are based on the updated salaries figures.

[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 ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Employee Benefits

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

Description	2007 ADOPTED Budget	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Total Projected Expenses	2008 PROPOSED Budget
Pension [1]	\$ 5,600	\$ 5,900	\$ 3,500	\$ 9,400	\$ 13,275
Health/Employee Benefits [2] [3] [4]	25,598	7,336	3,591	10,927	16,556
<b>TOTAL</b>	<b>\$ 31,198</b>	<b>\$ 13,236</b>	<b>\$ 7,091</b>	<b>\$ 20,327</b>	<b>\$ 29,831</b>

[1] A 457 plan and 401 (a) plan are in effect for Commission employees as approved by the Management Committee in December 2006. There will be Commission matching dollars paid into the plan for employees with one year of service. During 2007, there will be one employee eligible for matching dollars during December 2007. During 2008, there will be two Commission employees eligible for matching dollars with the projected costs noted. There was a set-up fee for the pension plans of \$5,600 payable in 2007. A similar cost is projected for the annual management fee of the plans in 2008.

[2] Employee health benefits are calculated based upon current NAIC/NIPR employees benefits and their plan type selections. This figure includes Health, Life/Disability, Employee Relations, Employee Benefits-other, Employee Recognition.

[3] Group life and disability benefits are estimated based upon current NAIC/NIPR employee benefits.

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

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Employee Development

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

Description	2007 ADOPTED Budget	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Total Projected Expenses	2008 PROPOSED Budget
Education Reimbursements [1]	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Dues [2]	3,000	-	1,000	1,000	1,000
Professional Training [3]	4,000			-	4,000
<b>TOTAL</b>	<b>\$ 7,000</b>	<b>\$ -</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 5,000</b>

[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. It is not anticipated that the Commission will have this expense during 2008.

[2] Professional association dues represent employee membership in various professional associations.

[3] Professional training represents the registration fees for professional seminars, trade workshops and education programs. It is anticipated that the Commission staff will be afforded professional training during 2008.



## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Professional Services

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

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Professional Services- NAIC Services [1]	\$ 135,000	\$ 34,746	\$ 2,499	\$ 37,245	\$ 100,000
Professional Services -- SERFF [2]	95,000	8,332	56,249	64,581	125,000
Professional Services -- Legal Services [3]	50,000	59,295	5,000	64,295	75,000
Professional Services -- Cash Management [4]	-	-	5,000	5,000	20,000
Professional Services - Consultants [5]	-	-	-	-	320,000
<b>TOTAL</b>	<b>\$ 280,000</b>	<b>\$ 102,373</b>	<b>\$ 68,748</b>	<b>\$ 171,121</b>	<b>\$ 640,000</b>

- [1] The IIPRC - NAIC Services Agreement signed on June 1, 2007 details services provided by the NAIC to the IIPRC on a fee-basis; such as technical, administrative and other staff services as agreed. The Base Fee under this Agreement is \$100,000. There also is an Adjustable Service Fee in the Agreement based upon revenue minus expenses. Since the IIPRC will likely not have operating revenue above its operating expenses during 2008, it is not anticipated that an adjustable fee will be paid to the NAIC during 2008.
- [2] Under the IIPRC - NAIC Services Agreement, the IIPRC pays an Annual License Fee to SERFF of \$25,000. The IIPRC also incurs development costs associated with making modifications to SERFF, including updates which will enable compliance with the IIPRC Product Filing Rule ("Mix and Match"). While the IIPRC is afforded 250 hours of SERFF hours under the Services Agreement, it is anticipated that additional hours will be necessary to make new modifications to the Compact pages of SERFF in order to accommodate Compact filings, the new Compact Fees structure and the overall expansion of the IIPRC product filing operations.
- [3] The IIPRC retains outside counsel to advise on start-up and related legal matters for the Commission. During 2007, the IIPRC paid for specialized pension counsel as well. It is anticipated that the outside counsel retainer will continue in 2008 to advise on continuous start-up issues for the Commission.
- [4] This figure represents the actual and anticipated audit fees for 2007 and 2008, respectively. This figure was increased based on estimates provided by potential audit firms.
- [5] The IIPRC will contract with consultants for product review, development and actuarial services.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Travel

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

Description	2007 ADOPTED Budget	2007 Actual Jan/Sept Expenses	2007 Projected Oct/Dec Expenses	2007 Total Projected Expenses	2008 PROPOSED Budget
Staff Travel [1]	\$ 22,400	\$ 16,891	\$ 10,000	\$ 26,891	\$ 36,000
Non-Staff Travel [2]	88,000	9,424	7,200	16,624	84,600
<b>TOTAL</b>	<b>\$ 110,400</b>	<b>\$ 26,315</b>	<b>\$ 17,200</b>	<b>\$ 43,515</b>	<b>\$ 120,600</b>

[1] The 2007 costs were based upon \$800 per trip (hotel/airfare average cost). With increased costs for travel, the 2008 estimates are based upon \$900 per trip (40 trips per year) for the Commission staff.

[2] The non-staff travel budget was based upon \$800 per trip (hotel/airfare average cost) for 2007. This per trip cost is increased to \$900 per trip for 2008 and includes Commissioner travel. It is anticipated that the IIPRC may pay for each Member to attend one meeting during the year, which is estimated at \$900 for 30 persons. The Commission will pay for the costs incurred by the members of the Legislative Committee and the Consumer Advisory Committee to attend the quarterly Commission Meetings as directed by our Bylaws. The projected costs detailed reflect 16 members for 4 trips each to our in-person quarterly meetings at an estimated \$900 per trip.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Meetings

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

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Meetings [1]	\$ 53,000	\$ 1,830	\$ 5,261	\$ 7,091	\$ 11,000

[1] The proposed figure represents ancillary costs for the IIPRC's in-person quarterly meetings.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Equipment Rental and Maintenance

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

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED BUDGET</b>
Computer Services-Other [1]	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Equipment, Hardware and Software Maintenance [2]	8,700	866	532	1,398	13,500
<b>TOTAL</b>	<b>\$ 8,700</b>	<b>\$ 866</b>	<b>\$ 532</b>	<b>\$ 1,398</b>	<b>\$ 23,500</b>

[1] The IIPRC may require additional computer services in support of its product filing operations.

[2] Costs for laptops, computer peripherals and Blackberries for staff and consultants. All equipment, including laptops for consultants use, will be owned by IIPRC.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

BUDGET ITEM: Depreciation

## ITEM DESCRIPTION:

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Depreciation [1]	\$ 750	\$ 14,158	\$ 7,065	\$ 21,223	\$ 42,300

[1] This is related to the IIPRC asset in SERFF and is not a cash expense.

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

BUDGET ITEM: Interest Expense

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

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Interest Expense [1]	\$ 50,000	\$ 5,328	\$ 1,897	\$ 7,225	\$ 80,000

Interest accrues on the Line of Credit extended by the NAIC to the IIPRC at prime minus 1%. With the initial \$550,000 line of credit advanced in 2007, interest accrues and is capitalized during the one-year deferment. The first payment on this initial line of credit is due beginning June 2008. With the projected additional Line of Credit from the NAIC, the IIPRC will accrue additional interest expense in 2008 which is reflected in the 2008 total.

[1]

## IIPRC ADOPTED 2008 BUDGET ANALYSIS

## BUDGET ITEM: Insurance

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

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
General Business Insurance [1]	\$ 2,500	\$ 2,266	\$ 796	\$ 3,062	\$ 3,067
Professional Liability Insurance [2]	2,500	4,855	1,517	6,372	11,825
E/O and D/O [3]	10,000	7,282	-	7,282	8,600
<b>TOTAL</b>	<b>\$ 15,000</b>	<b>\$ 14,403</b>	<b>\$ 2,313</b>	<b>\$ 16,716</b>	<b>\$ 23,492</b>

[1] General business insurance coverage's and related premiums.

[2] Professional liability insurance coverage's and related premiums.

[3] Comprehensive E/O and D/O coverage.

## IIPRC ADOPTED 2008 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.

<u>Description</u>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Telephone [1]	\$ 25,000	\$ 16,044	\$ 8,934	\$ 24,978	\$ 21,860
Other Supplies [2]	2,000	897	716	1,613	2,500
Non-Capital Equipment [3]	1,000	1,265	1,217	2,482	3,500
Mail Services [4]	2,500	367	2,232	2,599	1,650
Printing [5]	5,000	-	-	-	2,750
<b>TOTAL</b>	<b>\$ 35,500</b>	<b>\$ 18,573</b>	<b>\$ 13,099</b>	<b>\$ 31,672</b>	<b>\$ 32,260</b>

Telephone expenses are estimated for IIPRC conference call fees and on-line conference NetSpoke sessions. The IIPRC reduced telephone costs in 2007 by instituting pass code functions.

[1]

Other supplies include miscellaneous operating/day-to-day supplies and supplies ordered for IIPRC presentations.

[2]

There may be some non-capital equipment purchases planned for as the IIPRC hires staff with supply and/or office equipment needs.

[3]

Based on estimated utilization of postage and mail services.

[4]

Based on estimated IIPRC printing for marketing and Annual Report products; as well as any printed materials needed for the quarterly Management Committee, Commission and Annual Meetings.

[5]



## IIPRC ADOPTED 2008 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>	<b>2007 ADOPTED Budget</b>	<b>2007 Actual Jan/Sept Expenses</b>	<b>2007 Projected Oct/Dec Expenses</b>	<b>2007 Total Projected Expenses</b>	<b>2008 PROPOSED Budget</b>
Reference Materials [1]	\$ 2,500	\$ -	\$ 2,000	\$ 2,000	\$ 1,000
Recruiting/Relocation Expense [2]	1,500	17,817	5,230	23,047	22,710
Bad Debt Expense [3]	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 4,000</b>	<b>\$ 17,817</b>	<b>\$ 7,230</b>	<b>\$ 25,047</b>	<b>\$ 23,710</b>

[1] Purchase of manuals and reference materials for Commission Office.

[2] The Commission may need to pay recruiting expenses for new professional staff.

[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.