

INSURANCE
COMPACT
COMMISSION

2021
ANNUAL
REPORT

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LETTER FROM THE OFFICERS

What words could be used to best describe 2021? With the continuance of the COVID-19 pandemic, it would be easy to cast the previous year in a discouraging way. However, we would choose “resilience”, “responsiveness”, and “collaboration” to describe how the Commission rallied together and faced the challenges presented. This collective approach is reflected in the Commission’s 2021 accomplishments.

The Compact reached record milestones in 2021: numbers of registrations and filings were the highest yet with 286 companies submitting 2,337 forms, accounting for 1,547 filed products, and operating revenues were \$3,426,324.

The Commission also welcomed its 47th member, Delaware, which joined the Compact in July 2021.

The Commission adopted a series of emergency rules for the first time in its history in 2021. The standard nonforfeiture rate would have changed automatically in several individual non-variable annuity Uniform Standards with the update made to Section 4(B)(3) of Model 805, *Standard Nonforfeiture Law for Individual Deferred Annuities*. The Commission responded quickly by implementing emergency rules throughout the year to stay the updates until the Commission could find a permanent solution. The affected Uniform Standards now refer to state law when determining the standard nonforfeiture rate insurers must use when they issue new annuity contracts, allowing time for each member state’s legislature to consider the change to Model 805.

The Commission also collaborated to find solutions for South Carolina’s request to reduce or eliminate the 15% threshold for Compact approval authority of in-force rate increases in the *Rate Filing Standards for Individual Long-Term Care Insurance*. Members voted to adopt the option proposed by Washington Insurance Commissioner Mike Kreidler. This option separates the requirements for the initial rate schedule and subsequent rate schedule increases for in-force business into two Uniform Standards and permits a Compacting State to opt out of the in-force rate increase Uniform Standard while continuing to participate in other individual long-term care insurance (iLTC) Uniform Standards, including for the policy and initial rate schedule.

Several good governance recommendations were implemented in 2021 as well. Of the recommendations made by Squire Patton Boggs in its Governance Assessment Report, each committee has adopted an annual charter outlining its roles and responsibilities. The Commission used a consent agenda to address routine housekeeping actions items in a singular vote. Finally, the Commission exposed amendments to the Compact’s bylaws as proposed by the Governance Committee; this work will be finalized in 2022.

We want to recognize the stakeholders who helped make 2021 so successful: state insurance commissioners and their staff, members of the Legislative Committee, Consumer and Industry Advisory Committees, and company filers. There is much work to be done in 2022; with your continued commitment and engagement, we will surely have another resilient, responsive and collaborative year.

OFFICERS



Kathleen A. Birrane
Commissioner
Kathleen Birrane
 Chair, Maryland



Eric Dunning
Director
Eric Dunning
 Vice Chair, Nebraska



Allan L. McVey
Commissioner
Allan McVey
 Treasurer, West Virginia

PAST OFFICERS IN 2021



Superintendent
Elizabeth Kelleher Dwyer
 Chair, Rhode Island



Commissioner
Mark Afable
 Vice Chair, Wisconsin



Commissioner
James A. Dodrill
 Treasurer, West Virginia

LETTER FROM THE EXECUTIVE DIRECTOR

In 2021, the Compact recognized the 15th anniversary of the inaugural meeting of the Compacting States. The focus at that first meeting was creating a member-driven organization to promote regulatory efficiency of asset-based insurance products. This dedication to our mission has not wavered. Last year, the ingenuity and cooperative spirit of the Compacting States was in action.

The Compact utilized several processes for the first time to address pressing issues including emergency rulemaking, advisory opinion drafting and reevaluating the long-standing threshold for in-force long-term care rate increase approvals. The Compact also successfully deployed a new process for the identification of proposed Uniform Standards with the members driving the prioritization for their development. These actions were implemented amid the heaviest annual filing volume ever received and processed by the Compact.

The Compact kept its eye on completing several of its strategic goals in 2021 including enhancing member communications. Opportunities to attend webinar sessions were offered in the spring and fall, and each session was recorded to offer on-demand access to those who could not attend the live training session. The Compact launched a regulator-only Collaboration Space, to provide member regulators access to information about regulatory hot topics, committee activities and product filing information. The Compact also introduced its new monthly member newsletter, the Compact Chronicles, in June 2021. The Compact Chronicles provides pertinent information members need to stay apprised of Compact activities and is posted on our website.

Another strategic focus for 2021 was strengthening the legal foundation of the Compact by exploring the implications of implied congressional consent. The Governance Committee performed significant due diligence in carrying out the recommendation from the 2020 independent governance review to utilize the Compact’s advisory opinion authority to formally acknowledge its position on this matter. Through this work, the Compact and its member states are positioned to thoughtfully consider this advisory opinion in 2022.

Several operational changes were made in 2021 as well. Notably, 2021 was the first year the Expedited Review Process (“ERP”) was permanently implemented and was well utilized by frequent company filers, with 161 filings submitted through the queue. The percentage of mix and match filings submitted to the Compact decreased to 15% last year, which is a 7% reduction from 2020. Even with a record number of filing submissions, the average review turnaround time was 27 review days. The Compact welcomed two new staff members to its organization: Sarah Neil, Communications and Outreach Coordinator, was hired in June, and Joseph Bonfitto, Product Reviewer, joined in September. We also said goodbye to long-time reviewer, Maureen Hart Perry, who retired in December.

The achievements of the Insurance Compact belong to our members who dedicate their time and energy to its success, engaging and working alongside their fellow member states, legislative leaders, consumer and industry representatives, and other interested parties. Thank you for your participation in 2021, and we look forward to continuing this important work through 2022 and beyond. We are proud to be a trusted arm of our Compacting States.

Karen Z. Schutter

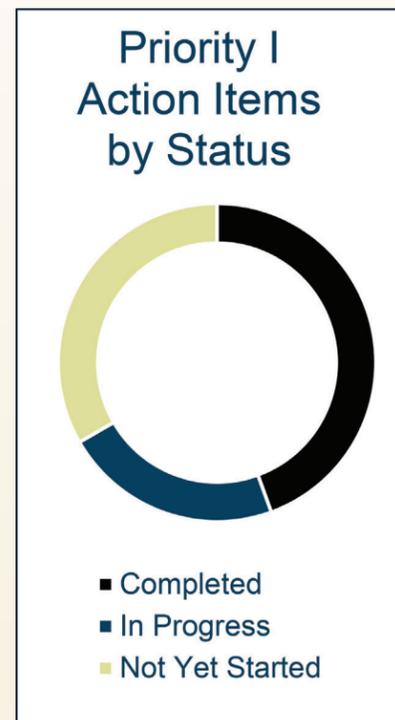
Karen Z. Schutter
 Executive Director

INSURANCE COMPACT COMPASS

In December 2019, the Insurance Compact adopted its three-year strategic plan - the Compass. The Compass was developed with input from all constituents - Commissioners and state regulators, state legislators, consumer advocates, company representatives, and filers. The Compass has three overarching priorities, each with three objectives followed by several action items identified under each one for a total of 28 action items.

Throughout 2021, the Insurance Compact completed several projects associated with the Strategic Plan. Examples of these projects included the development of regular communications about Compact activities and on-demand training sessions for Compacting states and company filers, hiring a member services coordinator, and implementing the Uniform Standards Development process. Several other action items were started in 2021 that are on pace for completion in 2022.

PRIORITY I: Uniform Standards States Support and Companies Willingly Use



Objective 1: Robust - Reflect strong consumer protections

Objective 2: Relevant - Reflect product offerings available in Compacting States

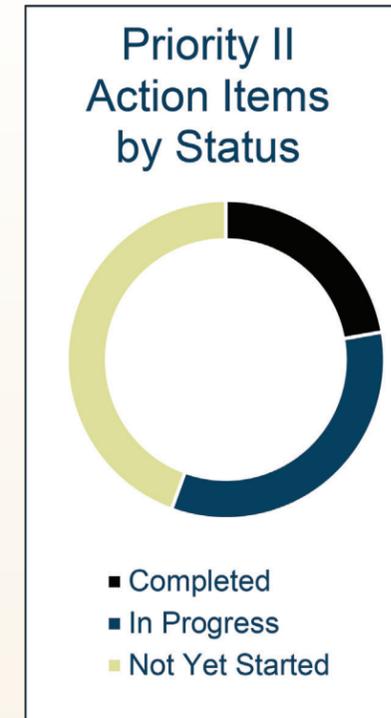
Objective 3: Reasonable - Reflect product requirements that are not unduly prescriptive

Priority I Action Items Completed in 2021:

#2, Provide wider and easy-to-follow public notice and detailed information with respect to Uniform Standards development for members, interested parties and constituents/stakeholders.

#6, Develop a system for identifying and prioritizing the development of new Uniform Standards including for new product lines and new products and benefit features for existing product lines to reflect product offerings accepted by the majority or more of Compacting States.

PRIORITY II: Nationally Recognized Regulatory Review Process



Objective 1: Responsive - Provide prompt review and turnaround times

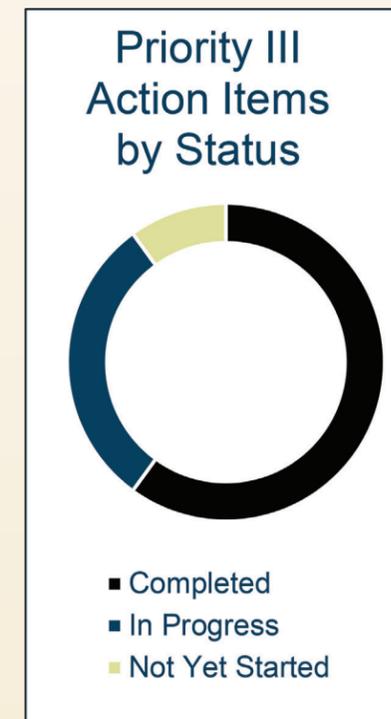
Objective 2: Reliable - Provide consistent, thorough quality reviews

Objective 3: Regulatory Collaboration - Provide information and processes working with Compacting States to facilitate their state market and financial regulatory functions with respect to Compact-approved products

Priority II Action Items Completed in 2021:

#1, Create a new position for a member services coordinator to work closely with regulators in Compacting States to provide regular and consistent communications on a variety of Compact matters including updates and issues in the regulatory review process.

PRIORITY III: Resource for Compacting States, Regulated Entities and Consumers



Objective 1: Responsible - Provide excellent and accountable information and services

Objective 2: Respected - Retain qualified and experienced staff

Objective 3: Ready - Provide proactive information on Compact activities and be an accessible source of information

Priority III Action Items Completed in 2021:

#1, Provide regular and ongoing information to Compacting States through weekly, monthly, and quarterly communications and reports about its committee and product operations activities.

#2, Provide live and on-demand training programs and tutorials for Compacting States, company filers, and consumer representatives about various aspects of the Compact and offer ongoing training on Uniform Standards and current product development.

#9, Working with the NAIC, provide regular updates to Committees, Task Forces and Working Groups with jurisdiction over product lines authorized by the Insurance Compact regarding its activities. Working with other state-based organizations including NCOIL, NCSL and CSG, provide regular updates on the Insurance Compact at its meetings or through other forms of targeted communication.

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 47 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 needs for uniformity, speed-to-market and regulatory compliance in a national state-regulated insurance marketplace.

MULTI-STATE PUBLIC BODY

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.

COMPACT STATES

45 States, plus the District of Columbia and Puerto Rico have adopted the Insurance Compact legislation to date, representing 75% of the premium volume nationwide.

CURRENT PRODUCT LINES:

- ★ Individual **Life**
- ★ Individual **Annuity**
- ★ Individual **Long-Term Care**
- ★ Individual **Disability Income**
- ★ Employer Group **Term Life**
- ★ Employer Group **Disability Income**
- ★ Employer Group **Annuity**

Over 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.

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.

Compact 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.

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. In 2021, the Audit Committee adopted a new Committee Charter.

2021: Kathleen A. Birrane (MD), Chair; Chlora Lindley-Myers (MO), Vice Chair

The **Governance Committee** promotes best practices for overall good governance and encourages effective leadership through the integration of planning, management, and quality improvement. The Governance Committee recommended amendments to the Compact's bylaws in concert with the recommendations made in the independent governance report authored by Squire Patton Boggs. To address the issues raised by the Colorado Supreme Court in the opinion it issued in April 2020, the Governance Committee has also prepared a draft Advisory Opinion along with a briefing sheet and suggested responses to frequently asked questions.

2021: Mark Afable (WI), Chair; Doug Slape (TX), Vice Chair

The **Finance Committee** monitors the finances of the Insurance Compact. In 2021, the Finance Committee prepared the annual budget, including monitoring the actual and projected revenues and expenses, as well as resource levels.

2021: Eric Dunning (NE), Chair; Vicki Schmidt (KS), Vice Chair

The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee. In 2021, the Product Standards Committee finalized its amendments to three waiver uniform standards and five uniform standards that references NAIC Model 805 at the request of the Management Committee and the development of guidance pertaining to the development of Uniform Standards. Both of these were included in the Compact's Strategic Plan as Action Items for the Product Standards Committee.

2021: Michael Conway (CO), Chair; Doug Ommen (IA), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2021, the Rulemaking Committee continued its work regarding the expansion of group products into other groups beside employer/employee groups. This was one of the projects identified in the Compact's Strategic Plan for the Committee.

2021: Andrew Stolfi (OR), Chair; Scott A. White (VA), Vice Chair

MEMBERSHIP (AS OF DECEMBER 31, 2021)



Jim L. Ridling
Commissioner, Alabama
Department of Insurance



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



Evan Daniels
Director, Arizona
Department of Insurance



Alan McClain
Commissioner, Arkansas
Insurance Department



Michael Conway
Commissioner, Colorado
Division of Insurance



Andrew N. Mais
Commissioner, Connecticut
Insurance Department



Karima M. Woods
Commissioner, District of
Columbia, Department of
Insurance, Securities, and
Banking



Trinidad Navarro
Commissioner, Delaware
Department of Insurance



John F. King
Commissioner, Georgia
Office of Insurance & Safety
Fire Commissioner



Colin M. Hayashida
Commissioner, Hawaii
Insurance Division



Dean L. Cameron
Director, Idaho
Department of Insurance



Dana Popish Severinghaus
Acting Director, Illinois
Department of Insurance



Amy Beard
Commissioner, Indiana
Department of Insurance



Doug Ommen
Commissioner, Iowa
Insurance Division



Vicki Schmidt
Commissioner, Kansas
Insurance Department



Sharon P. Clark
Commissioner, Kentucky
Department of Insurance



James J. Donelon
Commissioner, Louisiana
Department of Insurance



Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance



Kathleen Birrane
Commissioner, Maryland
Insurance Administration



Gary D. Anderson
Commissioner, Massachusetts
Division of Insurance



Anita G. Fox
Director, Michigan Department
of Insurance & Financial Services



Grace Arnold
Commissioner, Minnesota
Department of Commerce



Mike Chaney
Commissioner, Mississippi
Insurance Department



Chlora Lindley-Myers
Director, Missouri
Department of Commerce &
Insurance



Troy Downing
Commissioner, Montana Office
of the Commissioner
of Securities & Insurance



Eric Dunning
Director, Nebraska
Department of Insurance



Barbara D. Richardson
Commissioner, Nevada
Division of Insurance



Chris Nicolopoulos
Commissioner,
New Hampshire
Insurance Department



Marlene Caride
Commissioner, New Jersey
Department of Banking &
Insurance



Russell Toal
Superintendent, New Mexico
Office of Superintendent
of Insurance



Mike Causey
Commissioner, North Carolina
Department of Insurance



Judith French
Director, Ohio
Department of Insurance



Glen Mulready
Commissioner, Oklahoma
Insurance Department



Andrew R. Stolfi
Commissioner, Oregon
Division of Financial Regulation



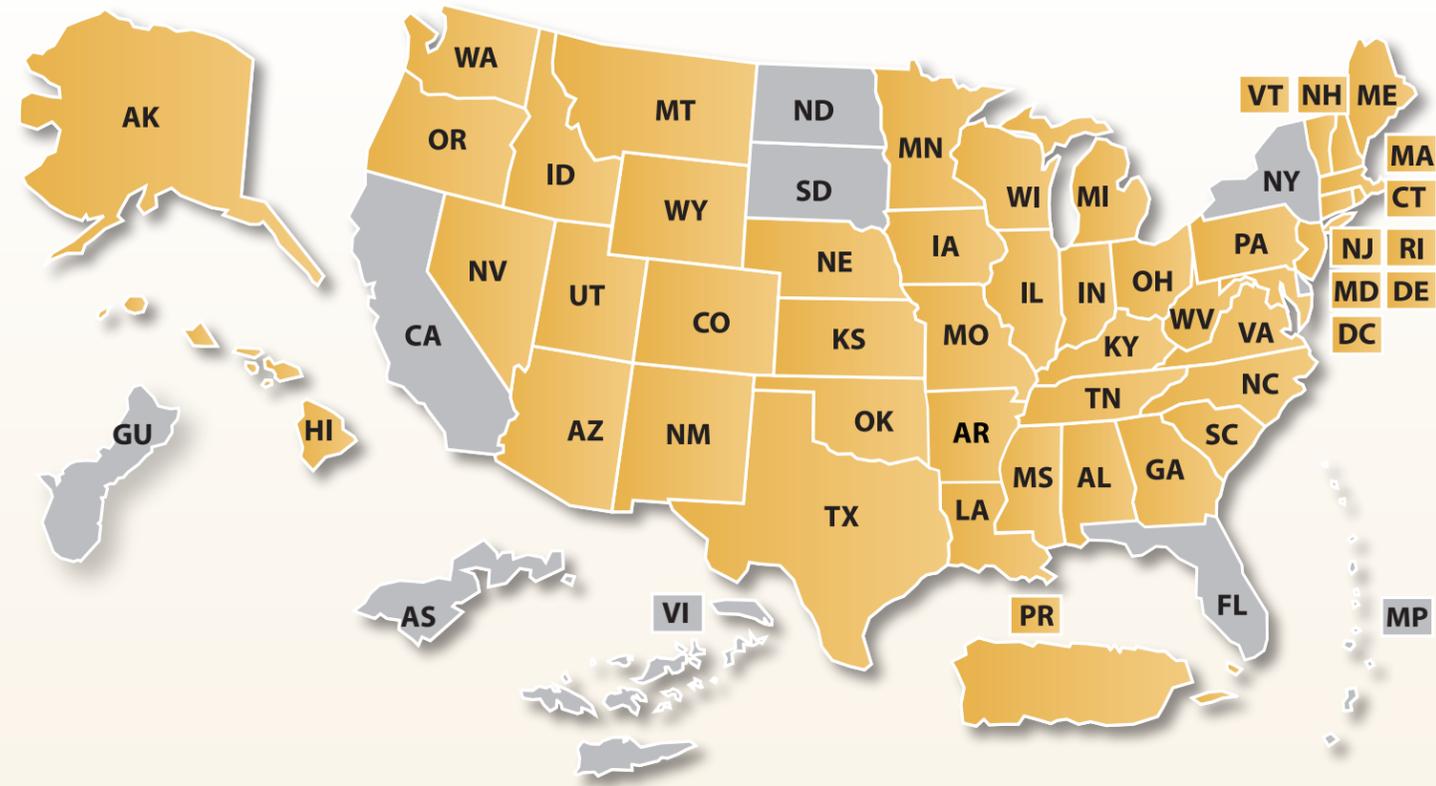
Jessica K. Altman
Commissioner, Pennsylvania
Insurance Department



Alexander S. Adams Vega,
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



Carter Lawrence
Commissioner, Tennessee
Department of Commerce
and Insurance



Cassie Brown
Commissioner, Texas
Department of Insurance



Jon Pike
Commissioner, Utah
Insurance Department



Michael S. Pieciak
Commissioner, Vermont
Department of Financial
Regulation



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



Mike Kreidler
Commissioner, Washington
Office of the Insurance
Commissioner



Allan McVey
Commissioner, West Virginia
Offices of the Insurance
Commissioner



Mark Afable
Commissioner, Wisconsin
Office of the Commissioner
of Insurance



Jeff Rude
Commissioner, Wyoming
Insurance Department

2020 Past Members Who Served
Steven Robertson, Indiana
Bruce Ramge, Nebraska
Mariano A. Mier Romeu, Puerto Rico
Doug Slape, Texas
James Dodrill, West Virginia

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, 2021 - 2022

Kathleen Birrane, Maryland, Chair
 Eric Dunning, Nebraska, Vice Chair
 Allan McVey, West Virginia, Treasurer
 Dana Popish Severinghaus, Illinois
 Gary D. Anderson, Massachusetts
 Anita G. Fox, Michigan
 Grace Arnold, Minnesota
 Marlene Caride, New Jersey
 Judith French, Ohio
 Jessica K. Altman, Pennsylvania
 Elizabeth Kelleher Dwyer, Rhode Island
 Cassie Brown, Texas
 Scott A. White, Virginia
 Jeff Rude, Wyoming

Management Committee, 2020 - 2021

Elizabeth Kelleher Dwyer, Rhode Island, Chair
 Mark Afable, Wisconsin, Vice Chair
 Jim Dodrill, West Virginia, Treasurer
 John F. King, Georgia
 Vickie Schmidt, Kansas
 Dana Popish Severinghaus, Illinois
 Anita G. Fox, Michigan
 Marlene Caride, New Jersey
 Mike Causey, North Carolina
 Judith French, Ohio
 Jessica K. Altman, Pennsylvania
 Scott A. White, Virginia
 Doug Slape, Texas
 Jeff Rude, Wyoming

ADVISORY COMMITTEES

Consumer Advisory Committee

- 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

Industry Advisory Committee

- American Council of Life Insurers (ACLI)
Wayne Mehlman, Senior Counsel, Insurance Regulation
- America’s Health Insurance Plans (AHIP)
Amanda Herrington, Executive Director, Product Policy
- Insured Retirement Institute (IRI)
Sarah Wood, Director, State Policy and Regulatory Affairs
- National Association of Insurance and Financial Advisors (NAIFA)
Maeghan Gale, Policy Director, Government Relations
- Allianz Life Insurance Company of North America
Anne Correia, Principal Product Contract Associate, Actuarial Product Development
- Athene Annuity and Life Company
Andrea Davey, Senior Manager, Compliance
- Northwestern Mutual Life Insurance Company
David Morris, Product Compliance Consultant
- New York Life Insurance Company
Joseph Muratore, Associate General Counsel, Office of the General Counsel

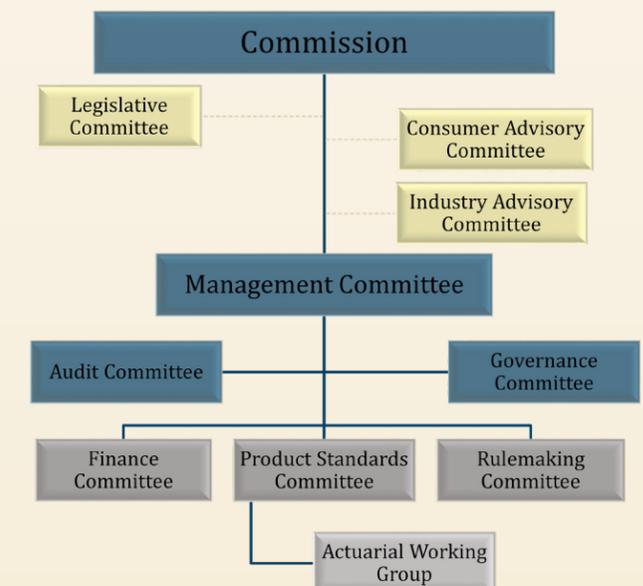
Legislative Committee

- **Representative Matt Lehman, Chair**
 State of Indiana
- **Representative Brian Patrick Kennedy, Speaker Pro Tempore Vice Chair**
 State of Rhode Island
- **Representative Matt Dollar**
 State of Georgia
- **Representative James Dunnigan**
 State of Utah
- **Representative Deborah Ferguson**
 State of Arkansas
- **Senator Laura Fine**
 State of Illinois
- **Assemblyman Ron Freiman**
 State of New Jersey
- **Representative Tom Oliverson**
 State of Texas

Former Members Who Served:

- **Representative Joseph Fischer**
 Commonwealth of Kentucky
- **Assemblywoman Maggie Carlton**
 State of Nevada

ORGANIZATIONAL CHART



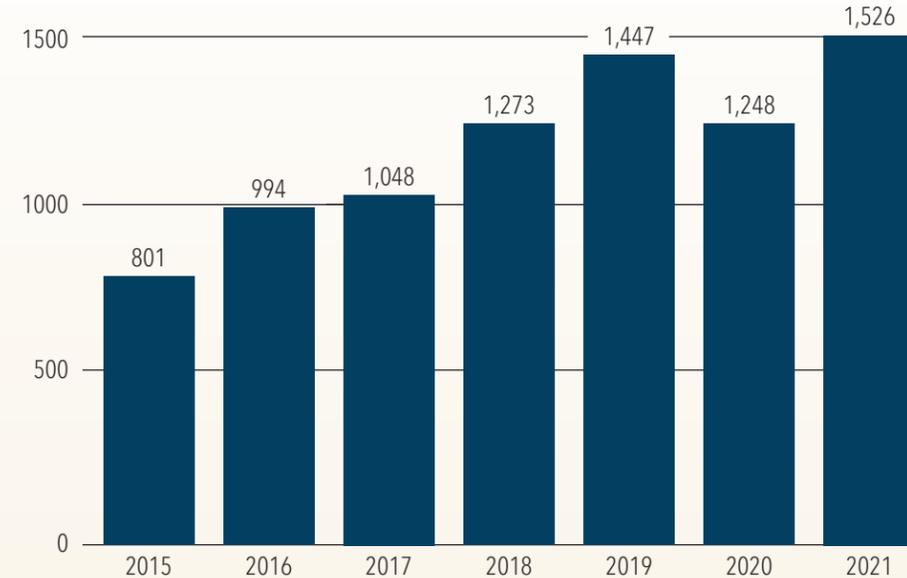
INSURANCE COMPACT MILESTONES

- 2021**
 - Delaware became the 47th Compacting State
 - 286 companies registered; 1,673 products submitted and 1,290 products approved with an average review time of 27 days with Mix and Match percentage = 15%
 - Adopted two new Uniform Standards and amended 9 Uniform Standards
 - 157 filings amended
 - Reviewed 178 products in Expedited Review Program
- 2020**
 - Completed independent business assessment and governance review
 - 46 Compacting States with Mix and Match percentage = 22%
 - 249 companies registered; 1,373 products submitted and 1,290 products approved with an average review time of 21 days
 - 72 filings amended
 - Reviewed 190 products in Expedited Review Program
- 2019**
 - Adopted first Group Annuity Standards, adopted ROP Standards for IDI products, and amended 2 Uniform Standards
 - 46 Compacting States with Mix and Match percentage = 27%
 - 266 companies registered; 1,639 products submitted and 1,617 products approved with an average review time of 33 days, 80 filings amended
 - Adopted *Insurance Compact Compass: Strategic Plan 2020 - 2022*
 - Employed the Expedited Review Pilot Program
- 2018**
 - Completed the Five-Year Review on the Individual Disability Income Uniform Standards and began the review of Group Annuity Uniform Standards with Mix and Match percentage = 34%
 - Washington, DC enacted the Compact legislation making it the 46th Compacting State
 - 233 companies registered; 1,439 products submitted and 1,226 products approved with an average review time of 25 days
 - 109 filings amended
- 2017**
 - 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 with Mix and Match percentage = 42%
 - Connecticut became the 45th Compacting State effective for filing
 - 228 companies registered; 1,132 products submitted and 1,159 products approved with an average review time of 20 days
 - 137 filings amended
- 2016**
 - Adopted Group Disability Income Uniform Standards; 100 Uniform Standards adopted
 - 45 Compacting States with Mix and Match percentage = 50%
 - 226 companies registered; 1,059 products submitted and 981 products approved with an average review time of 30 days
 - 229 filings amended
- 2015**
 - 44 Compacting States with Mix and Match percentage = 50%
 - 205 companies registered; 863 products submitted and 829 products approved with an average review time of 33 days
 - 197 filings amended

PRODUCT FILING STATISTICS

January 1, 2015 through December 31, 2021

Submissions Received



Overview

★ There are 47 Compacting States including Puerto Rico and the District of Columbia.

★ There are 22+ Types of Insurance (TOI) available for filing with 102 adopted Uniform Standards and 130 various sub-TOIs available.

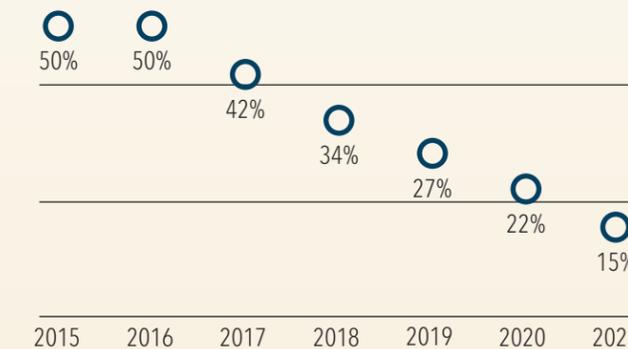
From June 2007 - December 2021:

★ Over 11,815 products have been approved by the Insurance Compact; which equates to over 403,605 SERFF transactions.

★ 35,085 forms have been submitted for review.

★ \$28,749,682 filing fees have been collected and remitted to the fee collecting member states.

Mix & Match Percentage



Registered Companies



State Filing Fees Collected and Remitted



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. The Insurance Compact marked its fourteenth full year of revenue-generating operations in 2021. The Insurance Compact's 2021 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 2021 and 2020.

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 \$2,325,937 as of December 31, 2021. This is an increase of \$513,703 compared to 2020.

Accounts receivables were \$9,787 in 2021 and \$30,678 in 2020; a difference of \$20,891. Prepaid expenses \$9,569 in 2021 and \$9,957 in 2020 and were largely unchanged.

Total current liabilities are \$1,476,411 or \$23,579 under 2020; accrued expenses were slightly higher in 2021 than 2020 - \$266,260 in 2021 compared to \$247,519 in 2020. In 2021, the Insurance Compact received \$815,525 in deferred revenue which was \$114,425 less than in 2020. Deferred revenue represents the annual registration fee paid in 2021 for the 2022 annual registration period. Due to the state regulatory requirement deadlines, more companies, and more companies in a higher fee-paying category, submitted their 2021 annual registrations by December 31, 2020. In 2021, the Insurance Compact made the second payment of the note payable to the NAIC in the amount of \$274,013. The amounts for accounts payable and accrued expenses were due to the timing of payments to vendors, employees, and consultants and fluctuates each year.

The Insurance Compact collected and remitted \$3,668,133 to states in applicable state filing fees, which was an increase of \$645,140 over the amount of state filing fees remitted in 2020. This increase follows a similar trend with the Insurance Compact's filing fee revenues for 2021 as explained below.

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 on a per transaction basis and not under any specific taxing authority. The Insurance Compact does not receive revenue from its members states but rather derives revenue from value-added services performed on behalf of the member states.

Operating revenues were \$3,426,324 which was 124% of 2020 operating revenues with an actual-to-budget revenue ratio for 2021 of 114%.

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* provides that the Insurance Compact adopt its Schedule of Fees in conjunction with the adoption of its annual budget. In 2021, there were no changes to the Schedule of Fees which were last amended and effective in January 2019. The Insurance Compact is revenue neutral to Compacting States in that filers continue to pay the applicable state filing fees for Compact submissions in addition to the Insurance Compact fees.

The Insurance Compact requires an annual registration fee which provides access to the filing platform. There are eight main categories of filing fees for companies based on the reported premium volume and the number of states the company is currently licensed in. 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. As of October 1, all companies are eligible to register at the pro-rated rate of 50% of their applicable registration fee for the remainder of the annual period.

There are two main categories of product filing fees based on whether an actuarial review is required and within those two categories, there are four sub-categories based on the reported premium volume. Companies making submissions without an actuarial review pay less per submission than those requiring an actuarial review. Submissions inclusive of a rate review have a higher product filing fee due to the time and resources required to review the submissions. Regional companies licensed to do business in 12 or fewer compacting states pay a reduced registration and per-filing fee.

At the end of 2020, the expedited review service was adopted as a permanent service for individual life and annuity submissions. Companies entering the expedited review process pay double the applicable Insurance Compact product filing fee to receive review of their filing submission within service level time frames. The Insurance Compact saw 6% reduction in the number of expedited review submissions in 2021 with 178 compared to 190 expedited filings submitted in 2020. The difference in revenue was 3%, or \$5,635, less than the \$186,960 received in 2020. In 2021, there was an 18% increase in the number of expedited requests for submission requiring an actuarial review. In 2020, the Insurance Compact received a record number of 71 for expedited review requests for filings not requiring an actuarial review. This volume was not received in 2021; there were 40 requests received in 2021.

The Advance Filing Calculation fee was another optional service put in place in 2019. This service is to calculate and provide written guidance as to the proper state and Compact filing fees to be paid in the submission upon receipt of the \$100 service fee. In 2021, the Insurance Compact received \$18,500 in Advance Filing Calculation which was \$1,400, or 8%, more than the \$17,100 in 2020.

The third of the new filing fees put in place in 2019 was the EFT Return fee. This fee was assessed to companies who had an electronic funds transfer (EFT) that failed. When a filing is submitted to the Compact, the indicated state fees on the filing are automatically pushed to the states included in the filing submission. If there is a failed transmission, the fees are still paid from the Compact's banking accounts. The EFT Return fee is equal to 5% of the total EFT failure and is assessed to the company for any EFT return after their first failure. In 2021, \$3,170 was collected in EFT Return fees which indicated companies are performing additional due diligence to minimize EFT returns.

Product filing fees were \$1,941,731 in 2021, compared to \$1,411,953 in 2020, an increase of \$529,778. The Insurance Compact saw an increase in filing volume activity and associated revenue in 2021 when compared to 2020, especially life insurance product filings requiring actuarial review. As was in 2019, 2021 was exceptional in terms of filing and revenue activity because companies were required to update nonforfeiture values by the January 1, 2022 regulatory deadline. The Insurance Compact generally experiences an above-normal filing volume when companies respond to changes in the regulatory environment.

In 2021, the Insurance Compact saw an increase in the number of submissions requiring an actuarial review. In fact, volume was 32% above budget for these submissions which equates to \$273,655 above budgeted revenue. Mix and match filings continue to decrease from 22% in 2020 to 15% in 2021.

Annual registration fees of \$1,484,388 for 286 companies were earned in 2021, compared to \$1,343,300 for 249 companies earned in 2020.

The operating expenses of \$2,636,308 for 2021 were under budget by \$226,270, or 8%, and \$48,151 under 2020's operating expenses. The savings in several lines was a direct result of the COVID-19 pandemic as travel and in-person meeting costs were not incurred as expected and staff and consultant positions were open longer than anticipated. The Insurance Compact ended 2021 with a positive change in net assets of \$790,016.

MANAGEMENT'S DISCUSSION & ANALYSIS

Debt

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. The Services Agreement includes an additional adjustable administrative fee equal to 7.5% of every \$25,000 of net revenue in excess of expenses earned by the Commission. The Commission paid \$63,750 for the adjustable administrative fee based on the net revenue of \$853,766 and reflected under the professional services for 2021.

The note payable to the NAIC totals \$2,630,828 as of the end of 2021. This is a \$274,013 decrease over the prior year due to the loan payment in March 2021. From 2007 through 2012, the Insurance Compact borrowed against lines of credit provided by the NAIC to fund operational needs.

In 2010, the NAIC and Insurance Compact entered a note payable for all outstanding and future borrowing with an interest rate of 2.25% equal to the prime rate of 3.25% on January 1, 2010, less 1%. Principal and interest payments were deferred until the year following the year in which the Insurance Compact achieved a profit of \$250,000 or an accumulated cash balance from operations of \$500,000 excluding funds from draws. Outstanding interest was capitalized monthly.

As of December 31, 2019, the Insurance Compact triggered the repayment of principal and interest by achieving a net positive revenue of \$646,204, which exceeded the \$250,000 threshold.

In 2020, the Insurance Compact and the NAIC restructured the repayment terms as the parties recognized the Insurance Compact would not be able to service the full amount of the note payable over five years without causing a negative cash balance. The updated repayment agreement extends the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance of \$2,740,134. Payments of \$274,013 will be made no later than March 31 of each year unless extended by mutual agreement between the Compact and the NAIC. If during the 10-year repayment period the Commission's cash balance is less than \$250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of \$712,733 will be treated as a contribution to the Commission. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. The first annual payment was made in May 2020 and the second annual payment was made in March 2021. With a cash balance of \$2,325,937 as of December 31, 2021, the Compact will make the third annual payment in March 2022.

Economic Factors

The Insurance Compact accepted its first product filings in June 2007 and completed its fourteenth full calendar year of product filing review operations in 2021. The Insurance Compact has approved over 11,800 products which would have translated into more than 403,600 individual state filing transactions. There are 47 Compacting Members, including 45 states, the District of Columbia and Puerto Rico.

For the Insurance Compact, 2021 was an unprecedented year in terms of revenue as the life insurance industry was required to meet a January 1, 2022 regulatory deadline to update their products in response to regulatory changes impacting nonforfeiture rates. The financial achievement of 2021 has strengthened the Insurance Compact's ability to respond to any planned and unplanned future changes.

The Insurance Compact budgets for revenues to meet or exceed actual revenues in the previous year. The Insurance Compact received 286 company registrations from large, medium, and small insurance companies and fraternal organizations representing a combined 92% of the nationwide premium volume written for asset-based insurance products. Companies continuously filing with the Insurance Compact was demonstrated again in 2021 with 95% of filers being repeat filers. Further, 272 of the 286 companies made full annual registrations as 95% registered before the prorated date of October 1, 2021. The Insurance Compact exceeded its budget target for annual registration revenue in 2021 by \$62,513.

The number of companies registered in 2021 exceeded the next highest volume year of registered companies in 2019 by 8% or 20 more registered companies.

The Insurance Compact received 1,673 products for 2021 which was a 22% increase compared to the 1,373 product filings received in 2020. In terms of budget, the actual number of product filings were 108% of the budgeted volume with product filing fees \$367,306 over budget. The variance in revenue is due to the difference in the filing fee category utilization. Due to the state regulatory required updates, product filing submissions requiring actuarial review were above budgeted volumes while the product filing submissions not requiring actuarial review were well below budget. Filings requiring actuarial review fall in higher fee categories.

In 2021, the Insurance Compact continued to deliver on speed-to-market with an average turnaround time of 27 review days. Even with the heavy workload and the record number of product filings, each one received a thorough review for compliance with the detailed Uniform Standards. In 2019, the Insurance Compact created an expedited review service on a pilot basis which was adopted on a permanent basis in 2020. The purpose of the filing option is to address the demand from some, not all, companies requesting approval well within the 60-day turnaround time required under the Compact's Product Filing Rule and even more aggressive than the Compact's average turnaround time. Companies that focus on quicker-than-average turnaround times have shown their willingness to pay more to support such a process, which involves dedication of form reviewers and actuaries to continue to ensure thorough compliance review within tight service level time frame.

Since its inception, the Insurance Compact has earned a total of \$528,910 in additional fees associated with the expedited review process. Ninety-nine companies of all sizes have taken advantage of the expedited review process. The revenue received from expedited review filings is fairly comparable in 2021 and 2020 with 12 less filings submitted to expedited review in 2021 than 2020. The filings going through expedited review in 2021 likely required more actuarial resources and review time which would explain the lower volume in this queue. For 2021, the average turnaround time for the expedited review queue was nine days.

The operating expenses of the Insurance Compact in 2021 were under 2020 operating expenses by 2%. In 2020, the Insurance Compact conducted a Governance Review and a Business Assessment. This was a significant one-time expense. Comparing the initial budget adopted in 2020 without these two strategic projects, the 2021 budgeted is comparable with \$11,006 more included in expenses. 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 \$1,618,959 in 2021 compared to \$1,522,743 in 2020. The increase was due to filling two vacant positions along with the promotions of long-tenured staff.

Professional services were \$509,754 in 2021 compared to \$714,656 in 2020. The Insurance Compact amended its annual budget in June 2020 to add \$400,000 in professional services for independent consultant services to provide a governance review, business assessment and a litigation risk assessment. At the end of 2021, one consultant retired. This position was converted to a full-time employee by the Management Committee in September and was not filled by the end of the year.

The Insurance Compact incurred \$42,624 of its \$148,530 travel budget. Travel restrictions due to COVID-19 eased allowing the Compact to conduct two budgeted in-person meetings in conjunction with the NAIC Summer and Fall Meetings. Salaries and professional services were also significantly under the budgeted amount for 2021 due in part to the timing of open positions and attrition.

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 2021 and 2020. Questions about this report and requests for additional financial information should be directed to Karen Schutter, Insurance Compact Executive Director, at kschutter@insurancecompact.com or (816) 783-8024.

AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT

RSM

Audit Committee

Interstate Insurance Product Regulation Commission**Opinion**

We have audited the financial statements of Interstate Insurance Product Regulation Commission (the Insurance Compact), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Insurance Compact as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Insurance Compact and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Insurance Compact's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Insurance Compact's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Insurance Compact's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Kansas City, Missouri
February 18, 2022

AUDIT REPORT**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION****STATEMENTS OF FINANCIAL POSITION**

December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 2,325,937	\$ 1,812,234
Accounts receivable	9,787	30,678
Prepaid expenses	9,569	9,957
Total assets	\$ 2,345,293	\$ 1,852,869
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable	\$ 120,613	\$ 48,508
Accrued expenses	266,260	247,519
Deferred revenue	815,525	929,950
Current portion of note payable to the NAIC	274,013	274,013
Total current liabilities	1,476,411	1,499,990
Long-term liabilities:		
Note payable to the NAIC	2,630,828	2,904,841
Total liabilities	4,107,239	4,404,831
Net deficit:		
Without donor restrictions	(1,761,946)	(2,551,962)
Total liabilities and net deficit	\$ 2,345,293	\$ 1,852,869

See notes to financial statements.

AUDIT REPORT**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION****STATEMENTS OF ACTIVITIES**

Years Ended December 31, 2021 and 2020

	2021	2020
Revenues:		
Annual registrations	\$ 1,484,388	\$ 1,343,300
Product filing fees	1,941,731	1,411,953
Interest income	205	6,584
Total revenues	3,426,324	2,761,837
Expenses:		
Salaries	1,618,959	1,522,743
Employee benefits	423,977	398,366
Professional services	509,754	714,656
Travel	42,624	14,987
Rental and maintenance	4,739	5,532
Insurance	17,274	15,914
Office services	10,583	10,556
Meeting expenses	8,398	1,705
Total expenses	2,636,308	2,684,459
Changes in net deficit without donor restrictions	790,016	77,378
Net deficit, beginning of year	(2,551,962)	(2,629,340)
Net deficit, end of year	\$ (1,761,946)	\$ (2,551,962)

See notes to financial statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Changes in net deficit without donor restrictions	\$ 790,016	\$ 77,378
Adjustments to reconcile changes in net deficit without donor restrictions to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	20,891	3,296
Prepaid expenses	388	(3,218)
Accounts payable	72,105	(57,030)
Accrued expenses	18,741	38,274
Deferred revenue	(114,425)	60,200
Net cash provided by operating activities	787,716	118,900
Cash flows from financing activities:		
Principal payment to NAIC	(274,013)	(274,013)
Net cash used in financing activities	(274,013)	(274,013)
Net increase (decrease) in cash	513,703	(155,113)
Cash:		
Beginning	1,812,234	1,967,347
Ending	<u>\$ 2,325,937</u>	<u>\$ 1,812,234</u>

See notes to financial statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION 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 Insurance Compact), 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 Insurance Compact 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 Insurance Compact had 47 member states as of December 31, 2021 and 46 member states as of December 31, 2020.

Basis of accounting for revenues: The Insurance Compact recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

Revenue from contracts with customers is derived primarily from annual registration fees and product filing fees.

The Insurance Compact's annual registration revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Prices are specific to a distinct performance obligation and do not consist of multiple transactions. As of December 31, 2021 and 2020, annual registration revenue was \$1,484,388 and \$1,343,300, respectively.

The Insurance Compact's product filing fees revenue is recognized at a point in time and consists of performance obligations that are satisfied when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF) and in accordance with the standards established by the Insurance Compact for its member states. The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. Prices are distinct to a performance obligation. As of December 31, 2021 and 2020, product filing fees revenue was \$1,941,731 and \$1,411,953, respectively.

The Insurance Compact records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statements of financial position and as of December 31, 2021 and 2020, were \$815,525 and \$929,950, respectively. Associated accounts receivable for revenue from contracts as of December 31, 2021 and 2020, were \$9,787 and \$30,678, respectively. There were no changes in annual registrations and product filing fees that would affect economic seasonality of the statements of financial position.

The Insurance Compact did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Basis of accounting and presentation: The Insurance Compact presents its financial statements based on ASC Topic 985, Presentation of Financial Statements. Net assets, revenues and gain and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Insurance Compact and changes therein are classified and reported as follows:

Net assets (deficit) without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2021 and 2020, net deficit consisted entirely of net deficit without donor restrictions.

Net assets with donor restrictions: Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the Insurance Compact and/or the passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Insurance Compact. Generally, the donors of these assets permit the Insurance Compact to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2021 and 2020, the Insurance Compact does not have any net assets with donor restrictions.

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 Insurance Compact, 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. As of December 31, 2021 and 2020, there was no recorded allowance for uncollectible accounts.

Functional expenses: The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. The Insurance Compact presents expenses only by their natural classification on the statements of activities for the years ended December 31, 2021 and 2020, as there is only one program (member services) with multiple service offerings. Therefore, management does not allocate expenses between multiple programs 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.

AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income tax provision: The Insurance Compact 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 Insurance Compact is subject to federal income tax on any unrelated business taxable income. The Insurance Compact 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, 2021 or 2020.

Recent accounting pronouncement: In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (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 statement of financial position 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 statement of activities. The new standard is effective for fiscal year 2022. The Insurance Compact has no lease obligations but is currently evaluating the impact, if any, of the pending adoption of the new standard on the financial statements.

Note 2. Liquidity and Availability of Resources

The Insurance Compact 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, 2021 and 2020, the following financial assets are available to meet general operating expenditures of the subsequent fiscal year:

	2021	2020
Financial assets at year-end:		
Cash	\$ 2,325,937	\$ 1,812,234
Accounts receivable, net	9,787	30,678
Total financial assets	<u>\$ 2,335,724</u>	<u>\$ 1,842,912</u>

The Insurance Compact has various sources of liquidity at its disposal, including cash and accounts receivable.

AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 3. Line of Credit From and Notes Payable to the NAIC

The Insurance Compact used lines of credit from the NAIC to fund operational needs from 2007 to 2012. Payment on these borrowings was triggered on December 31, 2019. Terms from the 2020 renegotiation of this agreement include a 10-year repayment period with the first payment due in 2020 and the final payment due in 2029. Repayment will be on the principal balance of \$2,740,134, with payments of \$274,013 made no later than March 31 of each year unless extended by mutual agreement between the Insurance Compact and the NAIC. If during the 10-year repayment period the Insurance Compact’s cash balance is less than \$250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of \$712,733 will be treated as a contribution to the Insurance Compact. As of December 31, 2021 and 2020, the outstanding principal and interest balance on the note payable is \$2,904,841 and \$3,178,854, respectively.

Aggregate maturities of long-term debt as of December 31, 2021, are as follows:

Years ending December 31:	
2022	\$ 274,013
2023	274,013
2024	274,013
2025	274,013
2026	274,013
Thereafter	1,534,776
	<u>\$ 2,904,841</u>

AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 4. Related-Party Transactions

Effective June 2007, the Insurance Compact entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the Insurance Compact. The NAIC is also providing a nonexclusive license to the SERFF system. The Insurance Compact has assumed the cost of upgrades and enhancements to the SERFF system to meet the Insurance Compact 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 and an annual license and maintenance fee in the amount of \$25,000 for the use of SERFF. The Insurance Compact also pays an adjustable administrative fee of every \$25,000 of net revenue in excess of expenses. This fee was 7.5% for the years ended December 31, 2021 and 2020. Additionally, certain expenses are paid on behalf of, and reimbursed by, the Insurance Compact.

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

	<u>2021</u>	<u>2020</u>
Administrative services provided by and paid to the NAIC	<u>\$ 125,000</u>	<u>\$ 125,000</u>
License fee paid to the NAIC	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Adjustable administrative fee	<u>\$ 63,750</u>	<u>\$ 5,625</u>
Amounts payable to the NAIC	<u>\$ 111,884</u>	<u>\$ 37,774</u>

Note 5. Defined Contribution Plan

The Insurance Compact 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, 2021 and 2020, the Insurance Compact agreed to match up to 3.5% of compensation of employees who contribute to the plan and contributed 2.0% of all employees’ annual compensation. The Insurance Compact made contributions of \$79,638 and \$73,885 for the years ended December 31, 2021 and 2020, respectively.

Note 6. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2021, through February 18, 2022.. 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, 2021. Aggregate maturities of long-term debt as of December 31, 2020 are as follows:

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HIGHLIGHTS





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