Interstate Insurance Product Regulation Commission

2011 Annual Report

States, Strength & Speed Aligned

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Letter from the Officers

In 2011, the Interstate Insurance Product Regulation Commission (IIPRC) marked five years since its inaugural meeting in June 2006 where the first 26 Compacting States gathered to set in motion transforming the regulatory product approval process for asset-based insurance within the state-based system of insurance regulation. We are pleased to report that our 2011 achievements showcase the IIPRC's significant progress and development. We welcomed more Compacting States, adopted more Uniform Standards and a new product line, added more reviewer resources and experienced ever-increasing company utilization.

Today, the IIPRC provides detailed and strong uniform product content requirements for individual asset-based insurance products accepted in 41 Compacting States, comprising 70% of the nationwide premium volume. More than 130 companies, representing a combined 55% of the nationwide premium volume, utilized the IIPRC in 2011 to submit a single product filing for one review and approval under a single set of Uniform Standards performed by a highly qualified, helpful and accessible team of product reviewers and actuaries.

Last year, the IIPRC demonstrated its commitment to working closely with incoming states providing information during their legislative process and addressing their questions during their implementation process. New Jersey and Illinois passed the Compact legislation in 2010 with both states accepting IIPRC-approved products last year. With an immediate effective date upon passage of Illinois' Compact legislation, the Illinois Department of Insurance requested and received a stay of the Uniform Standards to conduct regulatory due diligence and carefully vet the Uniform Standards. We are happy to report that Illinois is now accepting IIPRC-approved products for all product lines other than one Uniform Standard in the annuity product line. We also congratulate Alabama, Nevada and Oregon for successful passage of the Compact legislation in 2011 and welcome their active participation in our continued development.

The conscientious, diligent and collaborative efforts of our Members and their staff were in full force last year as we considered and adopted the individual disability income Uniform Standards. Over the past five years, the IIPRC has adopted more than 80 Uniform Standards covering a wide range of products and benefit features for the four individual asset-based insurance product lines authorized by the Compact.

Many of you reading this Annual Report have seen first-hand the IIPRC's rulemaking process is transparent, deliberative and welcomes input from regulators, legislators, consumers, companies and trade organizations. While it takes time, this process rises above state-by-state approaches and embraces best content and disclosure practices and protections benefitting consumers and allowing companies to prepare, deploy, market and administer standard product forms across all Compacting States.

The success of this process stands out in the high degree of acceptance and participation as no Compacting States have formally opted out of the approximately 70 Uniform Standards for individual life, annuities or disability income. Only four states have formally opted out of the individual long-term care Uniform Standards, which we all recognize is a challenging product line for states and companies, and one of the reasons many safeguards were included in the adopted Uniform Standards. In 2011, the IIPRC approved its first individual long-term care products which were subsequently approved or certified by several Compacting States for use in their respective Partnership programs.

The IIPRC also stayed responsive to its speed-to-market mission by retaining two new full-time resources in 2011 - a form reviewer and an actuary. We also saw more companies of all sizes register to use the IIPRC in 2011 and experience the tangible benefits of eliminating state-by-state content variations and reducing duplicative paperwork, processes and systems implementation.

As we reflect on five years of growth and success, we want to recognize the collective efforts and support of our Members and their staffs and the participation of the state legislators, companies and consumer and industry representatives. As we look forward, we thank you for your continued commitment and participation in the IIPRC's growth and development.

As of December 31, 2011 the Officers were:

Roger Sevigny
Chair

John Huff
Vice Chair

Michael F. Consedine
Treasurer

Wayne Goodwin
Past Treasurer
2010-2011

Letter from the Executive Director

For the IIPRC, speed-to-market has many aspects. It starts with Compacting States working together to develop strong and detailed uniform standards for the content of asset-based products that protect consumers equally across the Compacting States. Companies use these Uniform Standards to submit a set of standard forms in a product filing to the IIPRC. The IIPRC reviews these product filings working with the filer toward compliance and approval in an average review time for 2011 of 38 days or less. With this approval, companies are able roll out standard product forms throughout their distribution network in 41 Compacting States for individual life, annuity and disability income products and in 37 Compacting States for individual long-term care insurance products.

Companies filing through the IIPRC dramatically reduce the number of forms and filings that must be made for a product they want to sell across the Compacting States. In 2011, companies filed close to 470 individual life, annuity and long-term care insurance products – a 26% increase over 2010 filing volumes. These filings contained a combined 1,588 forms. If these companies had filed state-by-state, they could have had 40+ different filings per one IIPRC filing with a significant multiplier in the number of forms required to handle state-specific variations in content requirements. At an industry conference in 2011, one company calculated one of their IIPRC filings with 38 forms would have translated into 1,254 forms if filed separately in 34 Compacting States where authorized to do business.

The IIPRC also stayed responsive to its speed-to-market mission by retaining additional reviewer resources in 2011 and now has three full-time product reviewers, one full-time actuary and one part-time actuary. Filing companies have come to expect prompt, easy access to our team of professionals who will work with filers before and after a filing is made to answer questions and provide guidance for compliance. In 2011, the IIPRC moved to a "lead reviewer" approach where one reviewer has the primary responsibility for a product line including reviewing the bulk of filings and responding to general inquiries within their respective product lines.

The investment in the IIPRC's product operations reflects the importance to our members and our filing companies to provide a prompt and thorough review and turnaround of product filings. Compacting states, company filers and consumers have the benefit of a prior review and approval of products submitted through the IIPRC knowing that the IIPRC has worked with filers to ensure the approved forms are in compliance with the applicable Uniform Standards. In order to assist filers in maximizing their compliance and minimizing their review turnaround times, the IIPRC published its reviewer checklists on its website and held a series of webinars on IIPRC filing tips and tools and for specific product lines during 2011.

The participation, collaboration and support of our Compacting States are instrumental in achieving our goals especially with regards to expanding the "market" in speed-to-market. In 2011, the IIPRC worked closely with New Jersey, Illinois, Alabama, Nevada and Oregon to answer questions and address concerns as each joined and/or implemented the Compact in 2011. Last year, the IIPRC also adopted a full suite of Uniform Standards for individual disability income and disability business overhead expense products and paved the way for the filing of combination products.

On behalf of the IIPRC Team, we wish to thank the Commissioners and the many dedicated regulators in our Compacting States along with the members of the Legislative Committee, our consumer and industry advisory committees, and companies and filers for continuing to help us reach our speed-to-market goals.

Karen Z. Schutter

Karen Z. Schutter
Executive Director

About the IIPRC

The Interstate Insurance Product Regulation Compact ("Compact") is an innovative vehicle formalizing the joint and cooperative action among compacting states, leveraging regulatory resources and expertise to establish Uniform Standards that strongly protect the interest of consumers and form the foundation of a central clearinghouse for prompt review of asset-based insurance products. The Interstate Insurance Product Regulation Commission ("IIPRC") created by the Compact is a member-driven public entity, organized through a committee structure. The members develop and adopt the Bylaws, Budget, Uniform Standards, Rules, and Operating Procedures forming the foundation of the IIPRC's product filing operations. The IIPRC operates in an open and transparent process encouraging state legislators, consumers, industry representatives and any interested party the opportunity to be involved in the processes of the IIPRC.

MISSION: The Interstate Insurance Compact ("Compact") is transforming the way insurance products are filed, reviewed and approved in the United States. The Compact's new streamlined processes provide speed-to-market for the insurance industry, thus affording consumers quicker access to more competitive insurance products. By promoting uniformity through application of national product standards embedded with strong consumer protections, the Compact is meeting the demands of consumers, industry and regulators in the ever-changing, global financial marketplace.

BACKGROUND: The Compact has been adopted by 40 States and Puerto Rico to date, representing approximately 70% of the premium volume nationwide. The Compact established a multi-state public entity, the Interstate Insurance Product Regulation Commission ("IIPRC") which serves as an instrumentality of the Member States. The IIPRC is the central point of electronic filing for asset-based insurance products, including life insurance, annuities, disability income, and long-term care insurance. By leveraging the insurance regulatory expertise of the states, the Compact is able to employ one set of uniform standards with the highest level of consumer protection on a national level through the Compact's collective framework. The Compact, funded by filing fees, implements its modernization goals without impinging on state budgets.

STATUS: In June 2007, the IIPRC became operational and received its first filings within one year of its establishment. The Compact has defined speed-to-market by providing final disposition in less than 60 days. Companies of all sizes - large, medium and small - utilize the Compact's electronic filing platform to submit product filings using the adopted Uniform Standards. There are over 80 Uniform Standards in individual life, annuity, long-term care and disability income product lines adopted and available for filing use with additional standards under development for group life and annuities. By the end of 2011, the IIPRC saw continued and significant growth with the number of registered companies and product filing submissions compared to the previous year.

KEY MILESTONES:

- June 2006: Inaugural Meeting of the IIPRC in Washington, DC
- December 2006: First Uniform Life Standards Adopted by Members
- June 2007: Operations Initiated On-Target/First Insurer Filings Received
- July 2007: First Filings Approved in Under 30 Days
- Spring 2008: Experienced Regulators and Actuary join Compact Operations
- Summer 2009: "Mix & Match" 2-Year Timeline Removed
- November 2010: Illinois Joins the Compact; 37 Member States
- December 2010: Individual Long-Term Care Uniform Standards in Effect for Filing
- January 2011: New Jersey Joins the Compact; 38 Member States
- Spring 2011: New Product Reviewer and Actuary Join IIPRC Team
- Summer 2011: Alabama, Nevada and Oregon Enact Compact; 41 Member States
- Fall 2011: Individual Disability Income Standards Adopted

Membership (as of December 31, 2011)

Jim L. Ridling
Commissioner, Alabama
Department of Insurance

Linda Hall
Director, Alaska
Division of Insurance

Jim Riesberg
Commissioner, Colorado
Division of Insurance

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

Gordon Ito
Commissioner, Hawaii
Insurance Division

William W. Deal
Commissioner, Idaho
Department of Insurance

Robert E. Wagner
Acting Director, Illinois
Department of Insurance

Stephen Robertson
Commissioner, Indiana
Department of Insurance

Susan Voss
Commissioner, Iowa
Division of Insurance

Sandy Praeger
Commissioner, Kansas
Insurance Department

Sharon P. Clark
Commissioner, Kentucky
Office of Insurance

James J. Donelon
Commissioner, Louisiana
Department of Insurance

Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance

Therese Goldsmith
Commissioner, Maryland
Insurance Administration

Joseph G. Murphy
Commissioner, Massachusetts
Division of Insurance

R. Kevin Clinton
Commissioner, Michigan
Office of Financial and Insurance Regulation

Mike Rothman
Commissioner, Minnesota
Department of Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

John M. Huff
Director, Missouri
Department of Insurance

Bruce Ramge
Director, Nebraska
Department of Insurance

Scott J. Kipper
Commissioner, Nevada
Division of Insurance

Roger A. Sevigny
Commissioner, New Hampshire
Department of Insurance

Tom Considine,
Commissioner, New Jersey
Dept of Banking and Insurance

John Franchini
Superintendent, New Mexico
Division of Insurance

Wayne Goodwin
Commissioner, North Carolina
Department of Insurance

Mary Taylor
Lt. Governor & Director, Ohio
Department of Insurance

John Doak
Commissioner, Oklahoma
Department of Insurance

Lou Savage
Administrator, Oregon
Insurance Division

Michael F. Consedine
Commissioner, Pennsylvania
Insurance Department

Ramon Cruz-Colon
Commissioner, Puerto Rico
Department of Insurance

Joseph Torti, III
Superintendent, Rhode Island
Insurance Division

Gwendolyn Fuller McGriff
Acting Director, South Carolina
Department of Insurance

Julie Mix McPeak
Commissioner, Tennessee
Department of Commerce and Insurance

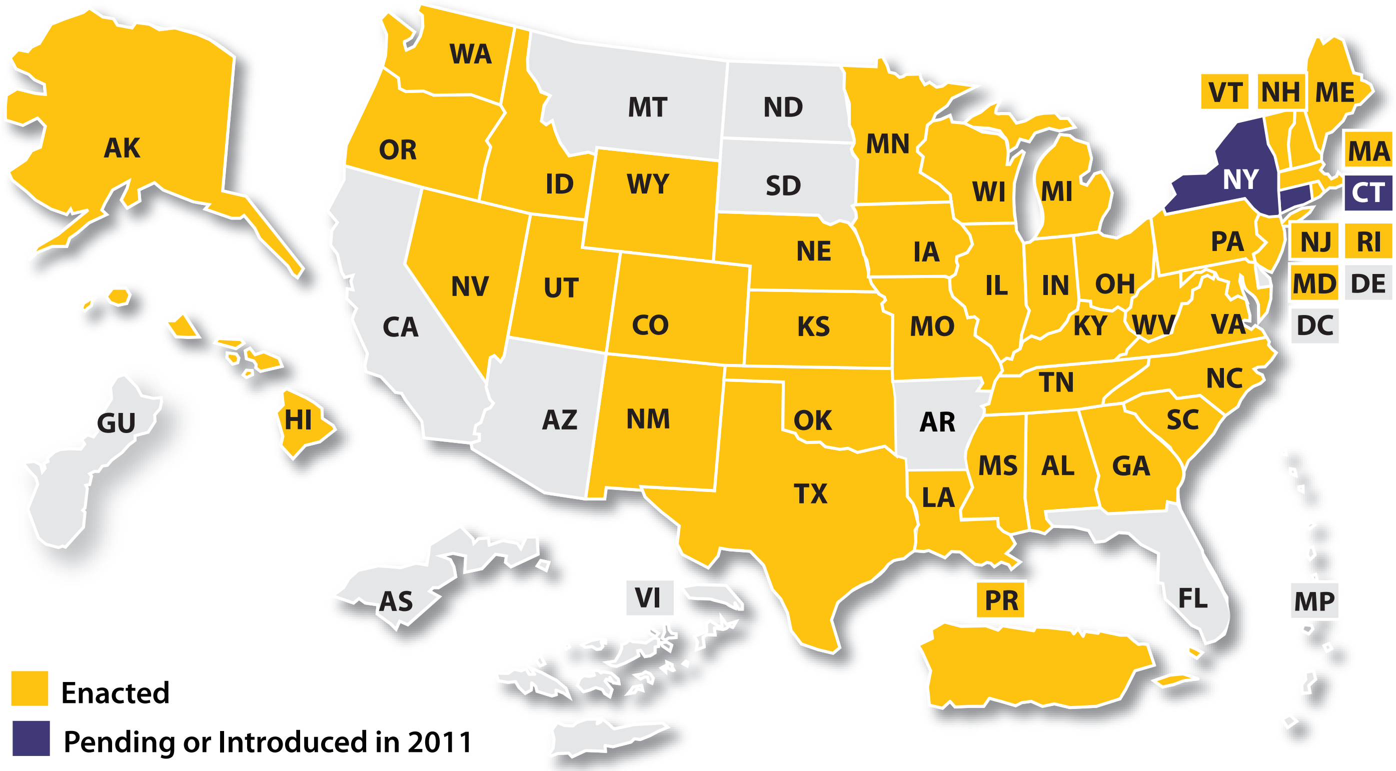
Eleanor Kitzman
Commissioner, Texas
Department of Insurance

Neal Gooch
Commissioner, Utah
Department of Insurance

Steve Kimbell
Commissioner, Vermont
Division of Insurance

Interstate Insurance Product Regulation Compact

As of December 31, 2011



Jacqueline Cunningham
Commissioner, Commonwealth of Virginia
State Corporation Commission, Bureau of Insurance

Mike Kreidler
Commissioner, Washington
Office of the Insurance Commissioner

Michael D. Riley
Commissioner, West Virginia
Offices of the Insurance Commissioner

Ted Nickel
Commissioner, Wisconsin
Office of the Commissioner of Insurance

Ken Vines
Commissioner, Wyoming
Department of Insurance

MANAGEMENT COMMITTEE

The Management Committee 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 at the Annual Meeting. 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.

Management Committee, 2011 - 2012

Roger Sevigny, New Hampshire, Chair
John Huff, Missouri, Vice Chair
Mike Consedine, Pennsylvania, Treasurer
Ralph Hudgens, Georgia
Robert Wagner, Illinois
Theresa Goldsmith, Maryland
Kevin Clinton, Michigan
Mike Rothman, Minnesota
Mike Chaney, Mississippi
Bruce Ramge, Nebraska
Tom Considine, New Jersey
Mary Taylor, Ohio
Lou Savage, Oregon
Eleanor Kitzman, Texas

Management Committee, 2010 – 2011**

Roger Sevigny, New Hampshire, Chair
Wayne Goodwin, North Carolina, Vice Chair
John Huff, Missouri, Treasurer
Andrew Stolfi, Illinois
Sandy Praeger, Kansas
Theresa Goldsmith, Maryland
Kevin Clinton, Michigan
Mike Chaney, Mississippi
Tom Considine, New Jersey
Mary Taylor, Ohio
Mike Consedine, Pennsylvania
Eleanor Kitzman, Texas
Jacqueline Cunningham, Virginia
Mike Kriedler, Washington
Ted Nickel, Wisconsin

**In 2011, New Jersey became one of the six compacting states with the largest premium volume. North Carolina remained on the Management Committee as an Officer.

Legislative Committee

Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Ruth Teichman, Vice Chair
State of Kansas

Representative Kurt Olson
State of Alaska

Senator Rosalyn H. Baker
State of Hawaii

Senator Delores Kelley
State of Maryland

Senator Keith Faber
State of Ohio

Representative Brian Patrick Kennedy
State of Rhode Island

Delegate Tim Hugo
Commonwealth of Virginia

Advisory Committees

Consumer Advisory Committee
T. Ryan Wilson, American Association of Retired Persons (AARP)
Brendan Bridgeland, Center for Insurance Research
Sonja Larkin-Thorne, Consumer Representative

Industry Advisory Committee
Tom English, New York Life Insurance Company
Marie Roche, John Hancock Life Insurance Company (U.S.A)
Jill Morgan, Symetra Life Insurance Company
Karen Alvarado, Insured Retirement Institute (IRI)*
Miriam Krol, American Council of Life Insurers
Amanda Matthiesen, America's Health Insurance Plans
William Anderson, National Association of Insurance and Financial Advisors
Mary Keim, State Farm Insurance Companies
Nicole Allen, Council of Insurance Agents and Brokers#

Member in 2010 – 2011
* Member in 2011 – 2012

Committee Activities

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

The **Communications Committee** handles the outreach and communications agenda for the IIPRC. In 2011, the Communications Committee coordinated the development of on-line, self-guided web tutorials for regulators on how to access, extract data from and track IIPRC-approved filings. The Committee published an IIPRC web page with information for consumers.

2010-2011: Mike Chaney (MS), Chair; Michael D. Riley (WV), Vice Chair
2011-2012: Mike Chaney (MS), Chair; Joseph G. Murphy (MA), Vice Chair

The **Finance Committee** monitors the finances of the IIPRC including preparing the annual budget, reviewing the actual and projected revenues and expenses; and making recommendations regarding the filing fee structure. In 2011, the Finance Committee recommended updates to the schedule of filing fees and worked closely with the IIPRC Office to manage short-term and long-term financial projections.

2010-2011: James J. Donelon (LA), Chair; Bruce Ramge (NE), Vice Chair
2011-2012: Joseph G. Murphy (MA), Chair; William W. Deal (ID), Vice Chair

The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee starting with the draft standards transmitted by the NAIC's National Standards (EX) Working Group. In 2011, the Product Standards Committee continued to meet weekly to review, draft and recommend uniform standards including uniform standards for individual disability income insurance products.

2010-2012: Ted Nickel (WI), Chair; Mike Rothman (MN), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2011, the Rulemaking Committee drafted and recommended amendments to the Rulemaking Rule to allow the IIPRC to solicit comments in advance of formal rulemaking.

2010-2012: Jacqueline K. Cunningham (VA), Chair; Neal Gooch (UT), Vice Chair

The **Technology Committee** reviews and recommends any enhancements to the IIPRC filing platform within the NAIC's System for Electronic Rate and Form Filing (SERFF) as well as monitors the technology needs for the IIPRC. In 2011, the Technology Committee reviewed the web-based tutorials for regulators on how to export information from an IIPRC-approved filing within SERFF.

2010-2011: Wayne Goodwin (NC), Chair; Mary Taylor (OH), Vice Chair
2011-2012: Ted Nickel (WI), Chair; Lou Savage (OR), Vice Chair

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

2010-2012: Joseph Torti III (RI), Chair; Linda Hall (AK), Vice Chair

Uniform Standards

The IIPRC establishes Uniform Standards for asset-based products filed with the IIPRC. By the end of 2011, the IIPRC had adopted a total of 82 very detailed Uniform Standards including a full suite of individual life, annuity, long-term care and disability income products. The Uniform Standards drafting process is an extremely open and inclusive process that starts at the NAIC's National Standards (EX) Working Group, comprised of members from compact and non-compact states, and after transmittal to and review by the IIPRC's Product Standards Committee, the Management Committee exposes each draft uniform standard for a 60-day notice and comment period on the Docket located on the IIPRC website. Comments regarding the proposed uniform standards are received from all interested parties to include the members of the Legislative Committee and the Industry Advisory and Consumer Advisory Committees. Upon adoption by the IIPRC (a minimum two-thirds vote in favor is required), a Uniform Standard is effective 90 days after promulgation. The Uniform Standards are moved to the Record located on the IIPRC website upon promulgation. These Uniform Standards are used by companies to prepare and submit a product filing which then undergoes an extensive, detailed review by the IIPRC's product review team.

Individual Annuity Products

- Deferred Variable Annuity
  - Single Premium
  - Modified Single Premium
  - Fixed Premium
  - Flexible Premium
  - Immediate
- Deferred Non-Variable Annuity
  - Single Premium
  - Modified Single Premium
  - Fixed Premium
  - Flexible Premium
  - Immediate

Annuity Benefit Features

- Waiver of Surrender Charges
- Tax Qualified Plans
- Index-Linked Crediting Features
- Bonus Features
- Market Value Adjustment Features
- Guaranteed Benefits
- Longevity Features

Individual Disability Income Products

- Disability Income Insurance
- Business Overhead Expense

Disability Income Benefit Features

- Long-Term
- Short-Term
- Combined Long-Term and Short-Term

Individual Life Products

- Term Life, Whole Life, Endowment
  - Single Premium
  - Joint Last-to-Die Survivorship
- Adjustable Life (Universal)
  - Single Premium
  - Joint Last-to-Die Survivorship
  - Flexible Premium (Adjustable)
  - Fixed/Indeterminate Premium

Life Benefit Features

- Accidental Death
- Accelerated Death
- Waiver of Premium
- Change of Benefits
- Underwriting Exclusions
- Index-Linked Crediting
- Intermediate Period Endowment (including Return of Premium)
- Graded Benefit

Individual Long-Term Care Products

- Home Care
- Home Health Care
- Nursing Home
- Assisted Living Care
- Adult Day Care
- Nursing Home & Home Care
- Nursing Home & Home Health Care

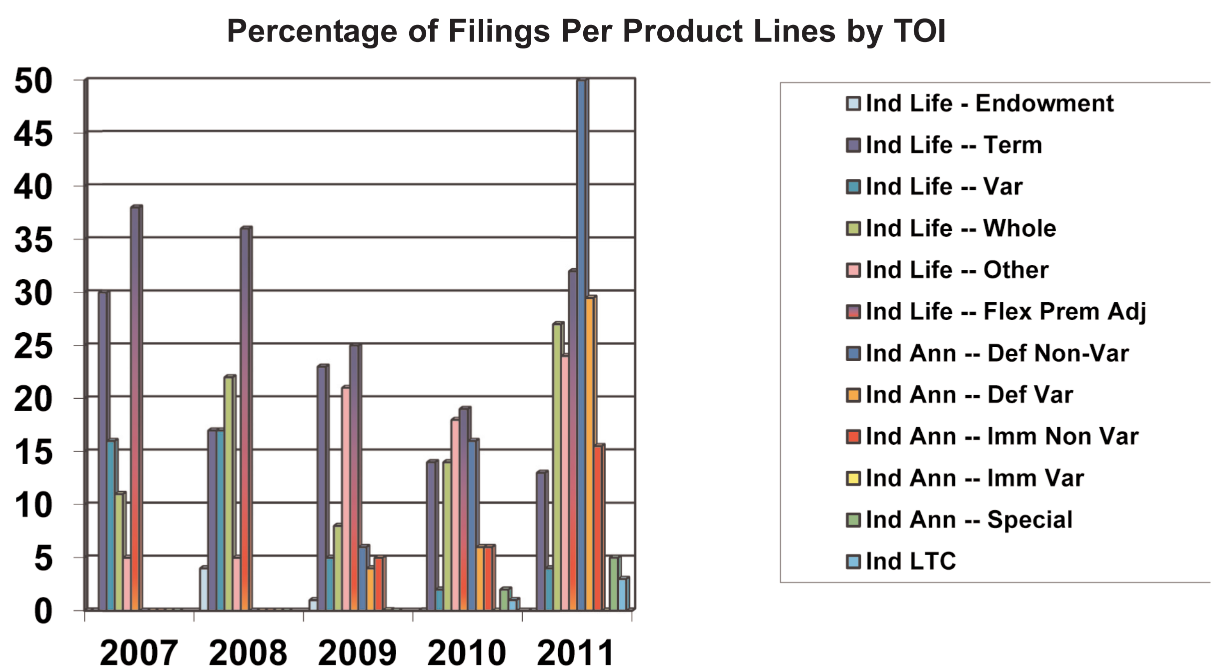
Long-Term Care Benefit Features

- Issue Age Rate Schedules
- Modified Rate Schedules

PRODUCT FILING STATISTICS

The tables below provide statistics on the product filings submitted to the IIPRC since first accepting product filings in June 2007 through December 31, 2011.

	2011	2010	2009	2008	2007
Companies Registered	132	113	74	38	N/A
Filings received	464	368	244	106	36
Forms Submitted	1,588	1,456	1,314	395	113
Amended Filings	78	40	-	-	-
Products Approved	436	320	279	126	29
Transactions *	13,685	8,446	7,494	3,063	552
Approval Time (average) **	38	42	28	25	35
Average # of states/filing	31	26	28	25	25
Mix & Match %	63%	63%	75%	75%	100%
State filing fees collected	$992,506	$735,683	$499,942	$139,910	$62,965
IIPRC filing fees	$274,127	$225,442	$130,900	$68,730	$18,050



* "Transactions" refers to the total number of SERFF transactions that have been made through the IIPRC.
** The time for product approval is calculated utilizing business days and excludes the company response time to objection letters, as defined in §105 of the "Product Filing Rule".

PRODUCT FILING TRENDS

☆ There are over 20 TOIs available for filing using the **82 adopted Uniform Standards** with more than **100 various sub-TOIs available**.

☆ **1,202 products have been approved** by the IIPRC to date since June 2007; which equates to **33,235 SERFF transactions**.

☆ The Types of Insurance (TOI) for the Product Filings submitted through SERFF for Compact Filings:

LIFE (66% of all filings received):
- 32% have been Flexible Premium Adjustable
- 27% have been Whole Life Products
- 24% have been TOI – Other
- 13% have been Term Life Products
- 4% have been Variable Life Products
- 0% have been Endowment Life Products

ANNUITIES (31% of all filings received):
- 50% have been Deferred Non-Variable Annuity
- 30% have been Deferred Variable Annuity
- 15% have been Immediate Non-Variable Annuity
- 5% have been Annuity - Special

LONG-TERM CARE (3% of all filings received)

☆ Of the 2011 Registered Companies who have submitted filings in 2011:
- 3% have filed more than 10 times
- 13% have filed more than 6-10 times
- 34% have filed more than 3-5 times
- 19% have filed twice
- 31% have filed once

☆ 92% was the company retention rate in 2011.

☆ The 132 companies who registered in 2011 represent approximately 56% of the national premium volume. 91% of the registered companies submitted filings in 2011.

☆ There have been 4,867 forms submitted with product filing submissions. The average number of forms per filing is 4. In 2007, the most forms submitted in one product filing were 17; in 2010, the most forms submitted in a single submission were 63; and in 2011, the most forms submitted in a single submission were 34.

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. Mayer, Hoffman McCann, P.C. has not audited this information and expresses no opinion on the information contained herein.*

Introduction

The Interstate Insurance Product Regulation Commission (IIPRC) 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. While the IIPRC's 2011 Annual Report includes the independent auditors report with information on the actual financial results of the organization, this report, which is not a part of the annual external audit examination, is included to provide management's analysis of the organization's financial performance in relation to the previous year.

Financial Highlights

The Commission'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 and 2011 borrowings from the NAIC have resulted in a cash and cash equivalents balance of $421,955 as of December 31, 2011 compared to a balance of $237,594 at the end of 2010. Pursuant to the 2011 line of credit approved in March 2011, the first draw of $250,000 occurred on August 9 and the second draw of $150,000 occurred on November 18.

Prepaid expenses are $1,351 lower than one year ago. This is due to a decrease in the premiums for insurance renewals in 2011 versus 2010.

Capital assets are $3,818 higher than one year ago. This is due to $5,299 in capital assets being purchased in 2011, partially offset by depreciation. Capital assets have been established for the costs associated with acquiring a SERFF version 5 license for IIPRC filings (computer software) and for necessary computer hardware for staff (computer hardware). The depreciation of $139,325 is mostly attributable to the depreciation of the SERFF license, which began June 1, 2007 with the IIPRC's first filings and became fully depreciated at May 31, 2010. Though fully depreciated this asset remains on the balance sheet because it is still in service.

Other assets result from contractual benefit obligations.

Liabilities are $191,740. This amount includes $10,850 in state fees collected on behalf of Illinois, Missouri and Texas. These states do not currently accept remittance by electronic funds transfer. Also included is $38,798 due to the NAIC for operational expenses. The remaining balance is due to the timing of payments to vendors, employees, and consultants.

In 2011, the IIPRC received $320,500 in deferred revenues which are $142,900 higher than one year ago, representing an increase in prepaid fees received in 2011 for 2012 registrations.

The net asset deficit represents a cumulative loss on operations of $2,641,965 and is the result of all revenues and expenses since inception. Operational losses are not uncommon for an organization with less than five years of revenue-generating activities especially one that is still implementing new product lines and state offerings and adding more resources. Management forecasts that IIPRC expects to generate revenue sufficient to cover operating expenses by 2014.

Statement of Revenues, Expenses and Changes in Net Assets
The IIPRC Terms and Procedures for IIPRC Filing Fees were adopted in September 2007. The IIPRC is a public entity and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company registers with the IIPRC and submits product filings to the IIPRC through SERFF. The annual registration fee is $5,000 per company and is prorated to $2,500 per company as of July 1. The IIPRC charges filing fees for product filing submissions ranging from $250 to $1,000 depending on the type of filing. Regional companies filing in 12 or less compacting states pay a lower registration and per filing fee.

Product filing fees were $158,373 (36.6%) under budget in 2011. The IIPRC assumed with the addition of new states like New Jersey, Illinois and Alabama along with the addition of the individual long-term care Uniform Standards, it would continue the exceptional growth in filing volume and revenue experienced in 2009 of 90% and 2010 of 72%. The IIPRC continues to experience positive growth in this revenue line as 2011 filing fees exceed those for 2010 by 21.6%. It is also noteworthy that Compacting States experienced a roughly 4% decrease in overall filing volumes for the same lines of business accepted by the Commission between 2011 volumes and 2010 volumes based on an aggregate query of all SERFF transactions which may indicate dynamics in the industry outside the decision to file with the IIPRC.

Annual registration fees of $596,250 for 132 companies were earned in 2011 compared to a budget of $931,250 for 250 companies. The 132 registered companies represent more than 55% of the national asset-based market based on premium volume written. There were 109 company registrations at the $5,000 level, 20 at the $2,500 prorated partial year rate, and one regional filer at the prorated partial year rate of $1,250. A portion of the variance is the assumption that several regional companies would take advantage of the efficiencies of filing through the IIPRC especially as the IIPRC changed the eligibility of a regional filer from companies doing business in five states to 12 states. The IIPRC continues to experience positive growth in this revenue line of 28% over the previous year.

The IIPRC and its members are committed to continuing its outreach campaign to encourage efficiency-minded companies of all sizes to register and utilize the ever-increasing advantages of filing with the IIPRC. Management continually evaluates the variance between budgeted revenue and actual revenue to make adjustments in its operating expenses, product operations and outreach strategy. The IIPRC also recognizes that it is still putting in place the pieces of its foundation and that the timing of certain milestones such as when a new Compacting State, a new product line or a new reviewer resource are implemented affects the assumptions for growth in its revenue lines.

Expenses ended the year under budget by $363,537 or 21.5% for 2011. An additional part-time administrative position was approved and budgeted for during the preparation of the 2011 budget, but was not hired until August 30. Health benefits budgeted for in the 2011 budget assumed a higher level of utilization.

Due to the IIPRC's continued filing growth, additional funding was included in the 2011 professional services budget for retention of additional review consulting resources. The IIPRC did not incur a full year of expenses for these resources as it retained the product review consultant at the end of March and the actuarial consultant in May, both on a full-time basis under a fixed fee arrangement.

On June 1, 2007, the IIPRC signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the IIPRC. The NAIC receives an annual administrative fee of $125,000 for these services. The IIPRC also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. Since inception, the IIPRC has engaged outside legal counsel for the establishment of its structural entity, preparation of bylaws, implementation of employee benefit plans, the review of governance matters and financing arrangements.

The IIPRC did not incur the level of budgeted travel expenses because of the cancellation of the NAIC 2011 Summer National Meeting and the overall volume of travel expenses for members of the Legislative and Consumer Advisory committees as well as Officers and members was lower than anticipated.

Insurance premiums renewals were lower than expected.

The IIPRC did not utilize the entire budget for office services as it experienced a savings in anticipated conference call costs and did not incur purchases for reference materials in 2011.

Credits for 2010 expenses were a primary driver of the savings in the meetings expense line in addition to not incurring meetings costs due to the cancellation of the NAIC 2011 Summer National Meeting.

Training expenses were not incurred due to management's decision to focus on other operational issues in 2011.

Debt

In Spring 2010, the NAIC Executive Committee (EX) and Internal Administration (EX1) Subcommittee and the IIPRC Management Committee approved the restructure of the 2007, 2008, and 2009 notes payable into one note payable. The restructure terms include (1) rolling all debt into one note payable effective January 1, 2010, at the current prime rate of 3.25% minus 1%; (2) accrual of interest on current debt and future borrowings from the NAIC at 2.25% (January 1, 2010 prime rate of 3.25% minus 1%); and (3) the deferral of principal and interest payments from the IIPRC until the year following the year in which the IIPRC achieves a profit of $250,000 or an accumulated cash balance from operations of $500,000 excluding funds from draws. As a result, the outstanding interest since the January 1, 2010 payment has been capitalized and the current portion of the three notes payable has been reclassified to long-term debt. Outstanding interest since the January 1, 2010 payment has been capitalized and the current portion of the three notes payable has been reclassified to long-term debt. The IIPRC used a line of credit in the amount of $450,000 in 2010 and drew on the full line of credit for 2011 in the amount of $400,000.

A request for an additional line of credit from the IIPRC in the amount of $400,000 to cover expenses in excess of revenues for 2012 will be considered by the NAIC at its Spring National Meeting.

Economic Factors

The IIPRC accepted its first product filings in June 2007, and completed its fourth full calendar year of product filing review operations in 2011. The IIPRC generated $691,442 in filing and registration fees during 2010 and $870,401 in 2011, a 26% increase. IIPRC revenue growth slowed in 2011 as compared to 2010 and 2009. In 2011, the IIPRC added more reviewer resources to address and bring down review turnaround times that began increasing in mid-2009. Throughout 2011, five states, including two large premium volume states, implemented and/or enacted the Compact legislation. The IIPRC also started accepting individual long-term care products and adopted individual disability income Uniform Standards which becomes effective in early 2012.

In December 2011, the IIPRC experienced its highest monthly filing volume with 75 product submissions. These 2011 registered companies, which represent a mix of large, medium, small companies and fraternals, write more than 55% of the national asset-based premium volume, which is a 15% premium volume growth over 2010 registered companies. The IIPRC is optimistic that with all 41 Compacting States accepting Commission-approved products and all individual product lines both implemented as of January 2012, it should experience continued and significant growth in registered companies and product filings.

The revenue goals in the 2012 adopted budget are very aggressive as they project the Commission's revenue will grow by 48% over 2011 actual revenues. Upon careful scrutiny with the goal of more closely aligning budget-to-actual revenue, the IIPRC expects to consider a recommendation in early 2012 from its Finance Committee to make a formal revision in its adopted operating budget for 2012 to reduce operating revenue with a proportional offsetting reduction in operating expenses to bring it more in line with the revenue growth levels experienced in 2011.

Contacting the IIPRC's Financial Management

This financial report is designed to provide a general overview of the IIPRC's finances and to show accountability for the funds received in 2011 and 2010. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Executive Director, at (202) 471-3962.

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INDEPENDENT AUDITORS' REPORT

To the **INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**

We have audited the accompanying statements of financial position of the Interstate Insurance Product Regulation Commission (the IIPRC) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the IIPRC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Insurance Product Regulation Commission as of December 31, 2011 and 2010, and the changes in its net deficit and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Leawood, Kansas
February 17, 2012

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 421,955	$ 237,594
Accounts receivable	13,415	550
Interest receivable	2	1
Other assets	64,284	45,401
Prepaid expenses	5,387	6,738
TOTAL CURRENT ASSETS	505,043	290,284
LONG-TERM ASSETS		
Property and equipment, net	3,974	156
TOTAL LONG-TERM ASSETS	3,974	156
TOTAL ASSETS	$ 509,017	$ 290,440
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 70,257	$ 27,979
Accrued expenses	57,199	37,541
Deferred revenue	320,500	177,600
Other liabilities	64,284	45,401
TOTAL CURRENT LIABILITIES	512,240	288,521
LONG-TERM LIABILITIES		
Note payable to the NAIC	2,638,742	2,186,448
TOTAL LONG-TERM LIABILITIES	2,638,742	2,186,448
TOTAL LIABILITIES	3,150,982	2,474,969
NET DEFICIT		
Unrestricted	(2,641,965)	(2,184,529)
TOTAL LIABILITIES AND NET DEFICIT	$ 509,017	$ 290,440

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2011 and 2010

	2011	2010
REVENUES		
Annual registrations	$ 596,250	$ 466,000
Product filing fees	274,127	225,442
Interest income	24	20
TOTAL REVENUES	870,401	691,462
EXPENSES		
Salaries	308,331	285,778
Employee benefits	80,872	79,790
Professional services	763,192	560,312
Travel	69,609	69,873
Rental and maintenance	3,867	1,900
Depreciation and amortization	1,481	21,133
Interest expense	52,294	42,416
Insurance	16,127	18,540
Office services	24,840	38,338
Meeting expenses	4,828	13,908
Recruiting	2,396	-
TOTAL EXPENSES	1,327,837	1,131,988
CHANGES IN NET DEFICIT	(457,436)	(440,526)
NET DEFICIT, BEGINNING OF YEAR	(2,184,529)	(1,744,003)
NET DEFICIT, END OF YEAR	$ (2,641,965)	$ (2,184,529)

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net deficit	$ (457,436)	$ (440,526)
Adjustments to reconcile changes in net deficit to net cash flows from operating activities		
Depreciation and amortization	1,481	21,133
Interest expense included in note payable	52,294	47,216
Changes in operating assets and liabilities		
Accounts receivable	(12,865)	27,094
Interest receivable	(1)	2
Prepaid expenses	1,351	(1,421)
Accounts payable	42,278	(19,972)
Accrued expenses	19,658	902
Deferred revenue	142,900	59,600
NET CASH FLOWS FROM OPERATING ACTIVITIES	(210,340)	(305,972)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital assets	(5,299)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from NAIC	400,000	450,000
Principal payments to NAIC	-	(69,796)
NET CASH FLOWS FROM FINANCING ACTIVITIES	400,000	380,204
CHANGE IN CASH AND CASH EQUIVALENTS	184,361	74,232
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	237,594	163,362
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 421,955	$ 237,594

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations – The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multi-state commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use their expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. As of December 31, 2011 and 2010, the IIPRC had 41 and 37 member states, respectively.

The IIPRC earns revenue predominately through annual registration and product filing fees. Product filing fees are earned when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states.

Basis of accounting and presentation – The financial statements of the IIPRC have been prepared on the accrual basis of accounting.

Cash and cash equivalents – For purposes of the statement of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds.

Property and equipment – Property and equipment consists of computer hardware and software and are stated at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is computed by the straight-line method over the following useful lives:

Description	Estimated Useful Lives
Computer software	3-5 Years
Computer hardware	3 Years

Use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Net deficit – At December 31, 2011 and 2010 net deficit consisted entirely of unrestricted net deficit.

Functional expenses – The *Not-for-Profit Entities* topic of the FASB ASC requires not-for-profit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2011 and 2010 statements of activities. 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.

Income tax provision – The IIPRC has been organized as a joint-cooperative of the compacting states and is therefore generally exempt from federal and state income taxes. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC is currently in the process of applying for and obtaining its tax exemption from the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code.

(2) Property and equipment

	2011	2010
Hardware	$ 16,397	$ 11,098
Software	126,902	126,902
Total Cost	143,299	138,000
Accumulated depreciation	(139,325)	(137,844)
Net property and equipment	$ 3,974	$ 156

3) Other assets

Other assets consist of a supplemental executive retirement plan with the Executive Director. This plan has been funded in its entirety by the IIPRC and the related liability is included in other liabilities on the December 31, 2011 and 2010 statements of financial position. Contributions to the plan totaled $20,000 for the years ended December 31, 2011 and 2010. The participant assumes all the risks and benefits associated with the losses and gains from the investments of the plan. Vesting is anticipated in July 2012.

(4) Line of credit from and notes payable to the NAIC

The NAIC executed agreements with the IIPRC providing a 2007 line of credit in the amount of $550,000, a 2008 line of credit of $850,000, and a 2009 line of credit of $550,000. IIPRC fully utilized all lines of credit not to exceed the stated amount, with an interest rate equal to the Prime Rate on the date of advance minus 100 basis points, compounded monthly. Repayment was amortized over 60 months and began on the first day of the calendar quarter following the date 12 months after the date of the initial advance of funds for the year (the determination date). Interest was adjusted to the Prime Rate minus 100 basis points on the determination date and compounded monthly.

The interest rate on the 2007 draws and determination date was 4%. The interest rate on the 2008 draws was 4.2% but reduced to 2.3% on the determination date. The 2009 draws remained at the 2.3% interest rate. Repayment on the note payable resulting from draws on the 2007 lines of credit began on July 1, 2008. Repayment on the note payable from the 2008 line of credit began on July 1, 2009. Repayment of the note payable from draws on the 2009 line of credit was scheduled to begin on January 1, 2011.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

(4) Line of credit from and notes payable to the NAIC (continued)

On January 1, 2010, an Amended, Restated and Consolidated Promissory Note with the NAIC took effect. The note consolidated all previous outstanding note and line of credit balances as described above and bears interest at 2.25%, compounded monthly. Repayment of principal and interest is deferred until the last calendar date of the first quarter following the trigger date. The trigger date is defined as the as-of date of the Independent Auditors' Report reflecting one or both of the following has been achieved: change in net assets of at least $250,000; accumulated cash balance of at least $500,000 from operations, excluding funds from draws. As a result, the outstanding interest is included in the principal balance of the note. Following the trigger date, the note will mature in 60 months and bear interest at 2.25%, compounded monthly. Quarterly principal and interest payments will be due through maturity.

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

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

As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allows the NAIC to call the remaining principal balance and all accrued interest for immediate payment.

An additional line of credit in the amount of $400,000 to cover expenses of the IIPRC for 2012 is on the agenda to be considered by the NAIC at the NAIC 2012 Spring National Meeting.

(5) Related party transactions

Effective June 2007, the IIPRC entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a non-exclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of $125,000 for the years ended December 31, 2011 and 2010. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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

	2011	2010
Administrative services provided by the NAIC	$ 125,000	$ 125,000
License fee paid to NAIC	$ 25,000	25,000
Amounts payable to NAIC	$ 38,798	$ 15,951

(6) <u>Defined contribution plan</u>

The IIPRC has a 401(a) defined contribution plan which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2011 and 2010, the IIPRC agreed to match up to 3.5% of compensation of employees who contribute to the plan and contributed 2% of all employees' annual compensation. The IIPRC made contributions of $12,796 and $13,407 for the years ended December 31, 2011 and 2010, respectively.

(7) <u>Cash flow disclosures</u>

	2011	2010
Cash paid for interest	$ -	$ 8,446

(8) <u>Subsequent events</u>

Management has performed an evaluation of events that have occurred subsequent to December 31, 2011 through February 17, 2012. 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, 2011.

Highlights

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