



TO: Members of the Compact Management Committee
FROM: Members of the Compact Finance Committee
DATE: September 27, 2023
SUBJECT: Draft 2024 Annual Budget Request and Request for 2 New FTEs

The Compact Finance Committee presents, and respectfully requests the Management Committee's consideration of, the draft 2024 Annual Budget with a request for two new full-time employee positions.

FULL-TIME FORM REVIEWER POSITIONS

The Compact Finance Committee requests two new full-time reviewer positions with a start date of June 1, 2024. This request is based on the anticipated increase in filing workload, diversity, and complexity as new Uniform Standards are implemented next year, including group whole life insurance, non-employer group changes, and index-linked variable annuities. Processes are being considered that will carry more work for product reviewers including checking compliance for non-employer groups, reviewing for mix and match concerns, and reporting on specific product reviews. This request would expand the capacity of the expedited review queue to add more eligible filing types and keep our review times in the regular and expedited queues efficient and timely, which has been frequently requested during Compact Roundtables.

It will be five years since the Compact added full-time product operation positions to its budget when it added 2 new FTES (one form reviewer and one actuary) in 2019. The Insurance Compact Office currently has four full-time form reviewers dedicated to reviewing filings across the product lines. Two years ago, a long-time reviewer moved into the Assistant Director of Product Review Operations position and continues to handle the bulk of form reviews in the expedited queue, responds to pre-filing communications, and manages the form reviewers and special filing projects.

While all reviewers are able to review all types of product filings for compliance with the 110+ adopted Uniform Standards, the Compact Office follows a primary reviewer approach to promote quality and consistency. In other words, reviewers have primary product lines they consistently review.

The Compact Office needs additional capacity for primary review of group insurance products as it anticipates growth in the next two years as group whole life Uniform Standards and the non-employer group framework are implemented. The Compact Office also needs additional capacity in the expedited review queue which was a queue established in 2019 to provide expedited turnaround times for additional fees. Companies have requested to expand the queue to include additional review capacity and review of more types of filings.

These new positions would add \$169,583 in expenses which is anticipated to be partially offset by increased revenues in the expedited filing queue in the amount of \$100,000. In future years, these positions

will be covered through increased filing volume and revenue associated with growing the Compact's Uniform Standards and updating its processes.

2023 In Review

The Compact is a statutory arm of the Compacting States which conducts the rate & form review function on their behalf to provide comprehensive and centralized review of product filings for company filers.

The Compact's filing platform is voluntary for companies willing to pay a value-added fee for a one-stop filing, review and approval under Uniform Standards. Product development cycle, regulatory changes and requirements, scope of Uniform Standards, and filing turnaround times drive Compact filing activity and revenue.

The Compact is revenue neutral to Compacting States and companies continue to pay all applicable state filing fees plus the Compact filing fees.¹

The Compact ended 2022 with negative net operating revenue of \$256,878 which was caused by a significant drop in filings and associated revenue after its best performing year in 2021 of positive operating revenue in the amount of \$790,000. Through the end of June 2023, the Compact actual revenue is within 3% of budgeted revenues and is projected to be within 1% of budget at year end.

Interest income is performing well above budget and is offsetting the variance in expected filings and associated revenues. Filings requiring actuarial review submitted by companies with \$50 million or more in premium volume are 60% of budgeted assumptions though other filing fee categories are performing at or above budget. Further, the Compact is above budget in the annual registration revenue line which is a sign of commitment by new and returning companies to file with the Compact.

The Compact increased certain per-filing fees by a range of 12 – 25% for 2023. This increase is estimated to have generated an additional \$150,000 in revenue through June. In addition, revenue from the expedited queue is tracking 30% over budgeted revenue.

Actual operating expenses continue to be appreciably under budget. Through the end of June, the expenses are approximately 10% under budget due to the timing of filling open positions and expected savings on special projects including legal services and website redesign. The projections show the expenses will remain under budget through the remainder of the year.

2024 Revenue Considerations

The 2024 annual budget has kept projected filing volumes very close to the those budgeted for 2023 for its existing product lines as it does not anticipate new regulatory or product cycle developments to drive an uptick in existing filings.

The projected filing volume numbers for 2024 include assumptions that the Compact will receive filings associated with new Uniform Standards including group whole life insurance, non-employer group filings,

¹ The Insurance Compact has two primary revenue lines. Annual Registration revenue is derived from registration fees paid by companies for access to the Compact filing platform in the calendar year. Per Filing Fee revenue is transactional revenue derived from registered companies' Compact filing activities.

and index-linked variable annuities. These Uniform Standards are expected to be implemented by or before June 2024.

The Compact is requesting two new full-time reviewer positions to provide more capacity primarily for review of group products and expansion of the expedited queue. By dedicating more review capacity to the expedited review queue, the budget assumes the Compact will receive additional revenue to partially offset the added resource expense as early as third quarter 2024.

2024 Expense Considerations

The operating expenses for 2024 propose to grow by 9% over the 2023 expense budget when the two new resources are factored in. The Compact assumes the addition of two new reviewers to start in June to accommodate the evolution, growth, and complexity in the product operations workload. In addition, the Compact is budgeting 3.5% increase in overall salaries and even higher percentages for employee benefits for its existing team.

The Compact is budgeting for additional travel expenses associated with attending presentations, conferences and exhibits for both Compact team and members. Further, the Compact is budgeting for Compact Roundtables including additional funding for increased member attendance. Further, travel and travel-related expenses have increased, which affects the budgeted amount.

Conclusion

For the above reasons, the Compact Finance Committee recommends to the Management Committee the proposed 2024 Annual Budget and recommendation for two new full-time form reviewer positions as of June 2024.