

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
2018 ADOPTED BUDGET
DETAIL REVENUE AND EXPENSES**

Description	2017					2018			%	Increase (Decrease) from 2017 Projected	%	
	2016 Actual	2017 Budget	6/30/2017 Actual	12/31/2017 Projected	2017 Projected Variance	2018 Budget	2018 Fiscal Impact Statements	Total 2018 Budget				Increase (Decrease) from 2017 Budget
Filing Fees	\$ 1,087,361	\$ 1,242,250	\$ 516,975	\$ 1,197,950	\$ (44,300)	\$ 1,265,825		\$ 1,265,825	\$ 23,575	1.90%	\$ 67,875	5.67%
Annual Registration Fees	928,525	949,750	880,000	937,250	(12,500)	1,026,000		1,026,000	76,250	8.03%	88,750	9.47%
Interest Income	608	-	1,514	1,826	1,826	1,500		1,500	1,500	-	(326)	(17.86%)
Total Revenues	2,016,494	2,192,000	1,398,489	2,137,026	(54,974)	2,293,325	-	2,293,325	101,325	4.62%	156,299	7.31%
Salaries, Taxes, and Benefits (1)	1,426,766	1,507,035	754,065	1,494,742	(12,293)	1,588,523	-	1,588,523	81,488	5.41%	93,781	6.27%
Professional Services (2)	436,299	443,967	190,065	407,840	(36,127)	430,003	-	430,003	(13,963)	(3.15%)	22,163	5.43%
Travel (3)	97,784	119,625	27,085	81,518	(38,107)	146,898	-	146,898	27,273	22.80%	65,380	80.20%
Rental and Maintenance (4)	7,110	9,390	3,933	8,438	(952)	7,920	-	7,920	(1,470)	(15.65%)	(518)	(6.14%)
Interest Expense (5)	71,746	74,067	36,482	73,666	(401)	75,045	-	75,045	978	1.32%	1,379	1.87%
Insurance Expense (6)	14,996	15,610	8,030	15,781	172	17,056	-	17,056	1,446	9.26%	1,275	8.08%
Administrative Expenses (7)	12,059	19,384	4,181	15,333	(4,051)	18,761	-	18,761	(623)	(3.21%)	3,428	22.35%
Meetings (8)	8,571	8,712	1,479	6,217	(2,495)	8,700	-	8,700	(12)	(0.14%)	2,483	39.94%
Total Operating Expenses	2,075,331	2,197,790	1,025,319	2,103,535	(94,254)	2,292,906	-	2,292,906	95,116	4.33%	189,370	9.00%
Revenues Over (Under) Expenses	\$ (58,837)	\$ (5,790)	\$ 373,171	\$ 33,491	\$ 39,280	\$ 419	\$ -	\$ 419	\$ 6,209	(107.24%)	\$ (33,071)	(98.75%)

Estimated Compact Funding Analysis:

	2017	2018
Funds Remaining as of July 31, 2017 and January 1, 2018	\$ 376,831	\$ 82,087
Draws on NAIC Line of Credit		
Total Funding Available	376,831	82,087
Balance sheet liabilities to satisfy from cash		-
Revenue Over/(Under) Expense	(339,680)	419
Adjustments for Non-Cash items:	313	
Insurance expense	7,752	17,056
Interest expense recorded monthly	37,184	75,045
Compact Funding Available at Year-End	\$ 82,087	\$ 174,607

Annual Registration Fee before October 1 Annual Registration Fee after October 1

- (1) The expenses included in this line are found on pages: E1: Salaries, E2: Payroll Taxes, E3: Employee Benefits, and E4: Employee Development.
- (2) The expenses included in this line are found on page E5: Professional Services.
- (3) The expenses included in this line are found on E6: Travel.
- (4) The expenses included in this line are found on page E7: Occupancy and page E9: Equipment Rental and Maintenance.
- (5) The expenses included in this line are found on page E10: Interest Expense.
- (6) The expenses included in this line are found on page E11: Insurance.
- (7) The expenses included in this line are found on page E12: Office Services.
- (8) The expenses included in this line are found on page E:8 Meetings.

2018 BUDGET ANALYSIS

BUDGET ITEM: Revenues

ITEM DESCRIPTION: Includes the revenues derived from (1) compact filings, (2) Annual Registration Fees, and (3) interest income.

Description	2016 Actual	2017 Budget	5/31/17 Actual	12/31/17 Projected	2018 Budget	Increase (Decrease) from 2017 Budget	Percentage
Filing Fees (1)	\$ 1,087,361	\$ 1,242,250	\$ 516,975	\$ 1,197,950	\$ 1,265,825	\$ 23,575	1.90%
Annual Registration Fees (2)	928,525	949,750	880,000	937,250	1,026,000	76,250	8.03%
Interest Income (3)	608	-	1,514	1,826	1,500	1,500	0.00%
Total	\$ 2,016,494	\$ 2,192,000	\$ 1,398,489	\$ 2,137,026	\$ 2,293,325	\$ 101,325	4.62%

(1) The Compact charges a filing fee for all product filing submissions submitted across all product lines. The fee that is collected for each product filing submission is based on several factors. The first is whether or not the filing requires an actuarial review as determined by the submission requirements for the applicable Uniform Standards. The second factor is whether or not the filing company's premium volume is greater than \$50 million based on the Schedule T-Part 2 of the Annual Statement filed with the National Association of Insurance Commissioners (NAIC) for the reporting year prior to the current annual registration period. The last factor is whether or not the filing company is a registered with the Compact as a Regional Filer per the definition of Regional Filer in the *IIPRC Terms and Procedures for IIPRC Filing Fees*. The charts below detail volume expected for each of the filing fee categories (fees for amended and other miscellaneous filing fees are not specifically listed). The Finance Committee has recommended an increase in the per Filing Fee amount which is reflected in the 2016 Budget line above and the chart below.

	<u>Submissions w/ Actuarial Review</u>		<u>Submissions w/o Actuarial Review</u>	
	Fee	Budget Volume	Fee	Budget Volume
<u>Companies w/ More than \$50M Premium Volume</u>	\$ 1,250	597	\$ 600	599
<u>Companies w/ Less than \$50M Premium Volume</u>	\$ 625	112	\$ 300	64
<u>Regional Filer Companies w/ More than \$50M Premium Volume</u>	\$ 625	24	\$ 300	17
<u>Regional Filer Companies w/ Less than \$50M Premium Volume</u>	\$ 313	10	\$ 150	11

(2) The Compact charges an annual registration fee for using the Compact filing platform as a means of self-generating revenue to fund its product operations. The amount of the annual registration fee is based on the aforementioned factors as with the filing fees. All registration fees are prorated in half for registrations submitted on October 1 or after based on the recommended changes to the pro-rated date in the *IIPRC Terms and Procedures for IIPRC Filing Fees*. The charts below detail volume expected for each of the filing fee categories.

	<u>Annual Registration Fee before October 1</u>		<u>Annual Registration Fee after October 1</u>	
	Fee	Budget Volume	Fee	Budget Volume
<u>Companies w/ More than \$50M Premium Volume</u>	\$ 5,000	175	\$ 2,500	4
<u>Companies w/ Less than \$50M Premium Volume</u>	\$ 2,500	43	\$ 1,250	1
<u>Regional Filer Companies w/ More than \$50M Premium Volume</u>	\$ 2,500	5	\$ 1,250	0
<u>Regional Filer Companies w/ Less than \$50M Premium Volume</u>	\$ 1,250	4	\$ 625	0
<u>Update-Only Registration</u>	\$ 1,500	8	\$ 750	2

(3) Interest income is earned on Compact's account and is dependent upon cash flow from revenues and lines of credit. Significant declines in the overall financial markets have affected interest earned.

2018 BUDGET ANALYSIS

BUDGET ITEM: Salaries

ITEM DESCRIPTION: Includes salary and overtime for all Compact employees.

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Salaries-Existing Employees (1)	\$ 1,162,232	\$ 1,206,132	\$ 599,733	\$ 1,200,397	\$ 1,255,184	\$ 49,052	4.07%
Salaries-New Employees	-	-	-	-	-	-	0.00%
Turnover Factor	-	-	-	-	-	-	0.00%
Overtime (2)	388	-	2	2	-	-	0.00%
Total	<u>\$ 1,162,620</u>	<u>\$ 1,206,132</u>	<u>\$ 599,735</u>	<u>\$ 1,200,400</u>	<u>\$ 1,255,184</u>	<u>\$ 49,052</u>	4.07%

(1) The Compact currently has 11 full-time employees: Executive Director, Assistant Director of Product Operations, Senior Operations Manager, Product Filing Support Coordinator, three Product Reviewers, two Actuaries, and two Administrative Assistants. The 2018 budget also includes an assumption of a combined 2.9% salary adjustment for cost-of-living and merit-based increases as well as possible promotions.

(2) The Compact has two non-exempt employees and does not anticipate scheduled overtime will be needed in 2018.

2018 BUDGET ANALYSIS

BUDGET ITEM: Payroll Taxes

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
FICA (1)	\$ 76,078	\$ 78,571	\$ 47,178	\$ 79,633	\$ 84,594	\$ 6,023	7.67%
FICA Turnover (2)	-	-	-	-	-	-	0.00%
Unemployment Compensation (3)	5,358	3,457	1,829	1,829	2,656	(801)	(23.17%)
Total	\$ 81,436	\$ 82,028	\$ 49,007	\$ 81,462	\$ 87,250	\$ 5,222	6.37%

(1) FICA is related to the projected FICA wage base and total salaries projected for the Compact employees.

(2) The turnover factor that is applied to salaries is also applied to the taxes related to those salaries.

(3) FUTA taxes are applied to the first \$7,000 of each employees wages

2018 BUDGET ANALYSIS

BUDGET ITEM: Employee Benefits

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

<u>Description</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Budget</u>	<u>5/31/17</u> <u>Actual</u>	<u>12/31/17</u> <u>Projected</u>	<u>2018</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u> <u>from</u> <u>2017 Budget</u>	<u>Percentage</u>
Pension (1)	\$ 33,280	\$ 63,938	\$ 28,886	\$ 61,608	\$ 69,035	\$ 5,098	7.97%
Health Benefits (2)	135,588	138,164	68,604	136,749	146,457	8,293	6.00%
Group Life and Disability (3)	6,464	8,683	3,426	7,619	7,406	(1,277)	(14.71%)
Employee Relations (4)	4,113	4,500	1,067	3,170	5,250	750	16.67%
Total	\$ 179,445	\$ 215,285	\$ 101,984	\$ 209,146	\$ 228,149	\$ 12,864	5.98%

(1) A 457 plan and 401(a) plan is in effect for Compact employees.

(2) In order to leverage the cost-savings and broader coverage options offered through larger groups, the Compact utilizes the NAIC employee benefit plan types pursuant to the Services Agreement. The Compact covers a portion of its employees premiums as an employee benefit. The increase in this particular expense item is due to an increase in premiums for 2018.

(3) In order to leverage the cost-savings and broader coverage options offered through larger groups, the Compact utilizes the NAIC employee benefit plan types pursuant to the Services Agreement. The Compact covers a portion of its employees premiums as an employee benefit. The Compact has budgeted for 11 full-time employees in 2018.

(4) The Compact budget includes minimal funding for employee and team recognition as well as related expenses associated with in-person team meetings.

2018 BUDGET ANALYSIS

BUDGET ITEM: Employee Development

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>Projected 12/31/17</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Professional Association Dues (1)	\$ 3,265	\$ 3,590	\$ 3,339	\$ 3,734	\$ 3,290	\$ (300)	(8.36%)
Education Reimbursements	\$ -	\$ -	-	-	\$ -	-	0.00%
Professional Training (2)	-	-	-	-	14,650	14,650	0.00%
Total	\$ 3,265	\$ 3,590	\$ 3,339	\$ 3,734	\$ 17,940	\$ 14,350	399.72%

(1) Professional association dues represent employees membership in various professional associations, such as bar association dues, actuarial organizations, and the Association of Insurance Compliance Professionals (AICP) membership for Compact employees.

(2) Professional training represents tuition costs associated with two leadership training programs for two employees.

2018 BUDGET ANALYSIS

BUDGET ITEM: Professional Services

ITEM DESCRIPTION: Fees paid to outside resources for information systems, consulting service to process product filings, legal services consultants, and cash management and payroll services.

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Professional Services-Computer (1)	\$ 25,000	\$ 25,000	\$ 12,499	\$ 24,999	\$ 25,000	\$ -	0.00%
Other Professional Services (2)	367,453	369,141	171,208	354,365	367,272	(1,869)	(0.51%)
Legal (3)	34,413	40,000	2,632	19,299	30,240	(9,760)	(24.40%)
Computer Services (4)	9,433	9,826	3,705	9,177	7,491	(2,334)	(23.76%)
Total	\$ 436,299	\$ 443,967	\$ 190,045	\$ 407,840	\$ 430,003	\$ (13,963)	(3.15%)

(1) The Compact pays an annual license fees for the use of the System for Electronic Rate and Form Filing (SERFF) in the amount of \$25,000 and is allotted 250 hours of SERFF development under the Services Agreement with the NAIC.

(2) This line item includes the NAIC Services Agreement (\$125,000); Cash Management (\$6,052); Annual Audit fees (\$8,250); and Consultant fees (\$227,970). The Compact currently has two (2) consultants: 1) one (1) Product Reviewer Consultant; and 2) one (1) part-time Regulatory Consultant.

(3) The Compact retains the outside counsel to advise on structural and related legal matters for the Commission. It is anticipated that the outside counsel retainer will continue in 2018 to advise on tax-exempt, organizational, and general legal matters for the Compact.

(4) This line item reflects the monthly costs for processing Compact payroll. Also included in this line item are the expense related to the consultants and remote employees monthly internet services to connect to the SERFF filing platform and the Compact office.

2018 BUDGET ANALYSIS

BUDGET ITEM: Travel

ITEM DESCRIPTION: Includes airfares, hotels, meals, etc., incurred by Compact staff, consultants, members and members of the Consumer Advisory and Legislative Committees.

<u>Description</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Budget</u>	<u>5/31/17</u> <u>Actual</u>	<u>12/31/17</u> <u>Projected</u>	<u>2018</u> <u>Budget</u>	Increase (Decrease)	<u>Percentage</u>
						from <u>2017 Budget</u>	
Staff Travel (1)	\$ 43,557	\$ 46,565	\$ 10,752	\$ 29,968	\$ 60,188	\$ 13,623	29.26%
Marketing Travel (2)	23,096	29,900	6,569	25,059	39,900	10,000	33.44%
Non-Staff/Commissioner Travel (3)	31,131	43,160	9,763	26,491	46,810	3,650	8.46%
Total	\$ 97,784	\$ 119,625	\$ 27,085	\$ 81,518	\$ 146,898	\$ 27,273	22.80%

(1) This line item includes the costs associated with travel for the Compact employees. It is anticipated that 10 Compact employees will travel over the course of the year for a total of 45 trips. Anticipated trips include the three (3) National Meetings which five (5) employees will attend as well as any other necessary meetings in support of the organization's mission. The average cost for each trip is estimated at approximately \$1,360, an increase over 2017. The increase in the 2018 budget is due to the anticipated travel of additional employees through the course of the year as well as the increase in travel costs.

(2) This line item includes the costs associated with travel for marketing/outreach by Compact staff, consultants, and/or members. It is anticipated that there will be 30 trips made over the course of the year for marketing and outreach at a variety of industry and regulatory conferences. It is also anticipated that the Compact will sponsor or exhibit at marketing events throughout the year. Included in this line item are the costs associated with marketing materials including "branding give-always". The increase in this budget line is also associated with more Compact Team members attending conferences and participating in marketing/outreach.

(3) This line item includes the costs associated with both Commissioner and non-staff travel. The Compact reimburses members of the Legislative Committee (8) and members of the Consumer Advisory Committee (8) for their costs associated with attending the Compact meetings. The Compact reimburses the consultants for travel associated with attending the Compact Meetings (estimated at three (3) for one consultant) as well as the Team meeting and any other strategy planning session that the Compact Office may convene. This line item also includes costs associated with Commissioner travel for Compact outreach and other business.

2018 BUDGET ANALYSIS

BUDGET ITEM: Occupancy

ITEM DESCRIPTION: Includes parking fees incurred for Compact staff.

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Occupancy (1)	\$ 7,110	\$ 8,124	\$ 3,933	\$ 7,978	\$ 7,920	\$ (204)	(2.51%)

(1) This line item includes monthly commuting benefits for the DC-based Compact employees. Included in this line are the costs associated with parking for the four (4) Kansas City-based employees.

2018 BUDGET ANALYSIS

BUDGET ITEM: Meetings

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	Increase (Decrease) from <u>2017 Budget</u>	<u>Percentage</u>
Meetings (1)	\$ 8,571	\$ 8,712	\$ 1,479	\$ 6,217	\$ 8,700	\$ (12)	(0.14%)

(1) Costs associated with the three (3) Compact in-person meetings including costs for the audio visual, telecommunications equipment, technicians, food, and beverage for meeting attendees. The Compact held only two in-person meetings in 2017.

2018 BUDGET ANALYSIS

BUDGET ITEM: Equipment Rental and Maintenance

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Equipment, Hardware and Software Maintenance (1)	\$ -	\$ 1,266	\$ -	\$ 460	\$ -	\$ (1,266)	(100.00%)
Total	\$ -	\$ 1,266	\$ -	\$ 460	\$ -	\$ (1,266)	(100.00%)

(1) The Compact is no longer incurring monthly maintenance costs for access to Zero Client.

2018 BUDGET ANALYSIS

BUDGET ITEM: Interest Expense

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>Projected 12/31/17</u>	<u>2018 Budget</u>	<u>Increase (Decrease) from 2017 Budget</u>	<u>Percentage</u>
Interest Expense (1)	\$ 71,746	\$ 74,067	\$ 36,482	\$ 73,666	\$ 75,045	\$ 978	1.32%

(1) The NAIC Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved the restructure of the 2007, 2008, and 2009 notes payable into one note payable at the NAIC 2010 Spring National Meeting. The Management Committee of the Commission approved this restructure on April 26, 2010. The restructure terms include (1) rolling all debt into one note payable effective January 1, 2010, at the then current prime rate of 3.25% minus 1%; (2) accrual of interest on current debt and future borrowings from the NAIC at 2.25%; and (3) the deferral of principal and interest payments from the Commission until the year following the year in which the Commission achieves a profit of \$250,000 or an accumulated cash balance from operations of \$500,000 excluding funds from draws. The deferral of debt repayment reduced Commission draws on the \$850,000 line of credit approved for 2010 to \$450,000. Outstanding interest since the January 1, 2010 payment has been capitalized. In 2011, the Commission took a line of credit in the amount of \$400,000. In 2012, the Commission took a line of credit in the amount of \$250,000. Since 2013, the NAIC has authorized a line of credit but the Commission has not utilized the available credit. Based on current projections, the Commission does not anticipate needing to draw on the 2017 line of credit. The Commission will seek a line of credit in 2018 though does not expect to utilize it.

2018 BUDGET ANALYSIS

BUDGET ITEM: Insurance

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

<u>Description</u>	<u>2016 Actual</u>	<u>2017 Budget</u>	<u>5/31/17 Actual</u>	<u>12/31/17 Projected</u>	<u>2018 Budget</u>	Increase (Decrease) from <u>2017 Budget</u>	<u>Percentage</u>
General Business Insurance (1)	\$ 14,996	\$ 15,610	\$ 8,030	\$ 15,781	\$ 17,056	\$ 1,446	9.26%

(1) General business insurance coverage and related premiums. Comprehensive errors and omissions and director/officer coverage premiums are included in this line as well.

2018 BUDGET ANALYSIS

BUDGET ITEM: Office Services

ITEM DESCRIPTION: Includes conference calls, office supplies, non-capital equipment, and mail.

<u>Description</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Budget</u>	<u>5/31/17</u> <u>Actual</u>	<u>12/31/17</u> <u>Projected</u>	<u>2018</u> <u>Budget</u>	Increase (Decrease) from <u>2017 Budget</u>	<u>Percentage</u>
Telephone (1)	\$ 9,603	\$ 12,000	\$ 3,621	\$ 9,794	\$ 11,700	\$ (300)	(2.50%)
Other Supplies (2)	465	250	44	95	250	-	0.00%
Non-Capital Equipment (3)	374	6,134	-	4,378	5,611	(523)	(8.53%)
Mail Services (4)	1,029	1,000	517	1,067	1,200	200	20.00%
Total	\$ 11,471	\$ 19,384	\$ 4,181	\$ 15,333	\$ 18,761	\$ (623)	(3.21%)

(1) Telephone expenses for conference calls, utilizing Chorus Call, for the: Commission; Management Committee; sub-committees; advisory committees; and webinars for regulator and industry education.

(2) This line item reflects the cost of supplies for the Compact office.

(3) The Compact has budgeted for potential software and device upgrades during 2018. Also included in this line is a \$500 annual allotment per consultant and remote employee to be reimbursed for expenses associated with the parameters of the technology platform for the Compact Office.

(4) This line item includes expenses to mail Compact correspondence via US Postal Service or FedEx/UPS services; the costs to mail the Annual Report to all Commissioners and Governors of the Compact states, as well as the members of the Legislative Committee and the two advisory committees.