



TO: Members of the Management Committee
FROM: Members of the Finance Committee
DATE: September 28, 2022
SUBJECT: Annual Budget Requested Recommendations
• Schedule of Fees – Per Filing Fee Increases

The Finance Committee presents the 2023 Annual Budget and Schedule of Fees to the Management Committee.

The Interstate Insurance Product Regulation Commission (Insurance 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 Insurance 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. The Insurance Compact is revenue neutral to Compacting States and companies continue to pay all applicable state filing fees plus the Compact filing fees.¹

This memo provides an overview of the actual and anticipated performance of the 2022 operating budget, revenue considerations for 2023 including planned increases to certain per filing fees, and expense considerations for the coming year.

2022 In Review

The Insurance Compact ended 2021 with positive net revenue of \$790,016, which was the highest balance on record for the organization. Such a robust year in terms of revenue and filing volumes is being offset by a significant drop in filings and associated revenue in 2022. Through the end of July 2022, the Insurance Compact is approximately \$400,000 under budget in revenues.

All revenue that the Insurance Compact receives is voluntary dependent upon companies' choice, ability, and need to file eligible products using the Compact platform versus state-by-state. Compact revenue is directly derived from the product development cycle, regulatory changes and requirements, scope of Uniform Standards and filing turnaround times. These dynamics are in play in both 2021 and 2022.

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.

In 2021, the Compact experienced record filing volumes from companies of all sizes, especially for life insurance product filings requiring actuarial review. Companies were required to update nonforfeiture values on most life insurance products by the January 1, 2022 regulatory deadline. Filers not only updated previously-approved Compact life insurance products but took the opportunity to file previously-approved state-approved life products as new products for Compact approval.

While the 2022 budgeted revenues were projected to be lower than 2021 revenues, the per filing fee revenue line through the end of July is trending closer to 2017 per filing fee revenue even with high usage of the expedited filing queue which requires a higher fee.

An indicator this is due to the product development dynamics of companies is that the annual registration activity for 2022 is close to budgeted volume and revenue.² That is, companies continue to register with the Compact to use its platform, but the level of their filing activity is considerably down in 2022.

The Compact Office has outreached to several companies and has been advised the lack of new filings is due to product development priorities. Several companies commented their product development activities are focused on products for which the Insurance Compact does not have Uniform Standards for today, including indexed-linked variable annuities and life products as well as group products that include non-employer groups (which is currently outside scope).

The Compact Office projects filing volumes will pick up in the remaining months of 2022 as companies wrap up work from the 2021 Compact filing approvals and make updates to existing products. However, the Compact is projecting a significant variance in actual-to-budgeted revenues at year end primarily due to lower-than-expected filings and associated revenue.

Actual operating expenses continue to be appreciably under budget, which is offsetting, in part, the underperformance in revenues. Through the end of July, the expenses are approximately \$193,000 under budget mainly 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 approximately 10% under budget through the remainder of the year.

2023 Revenue Considerations

The 2023 annual budget has lowered the projected filing volumes and is projecting volumes closer to those budgeted in 2020. These filing numbers are above 2022 actual volumes but below 2022 budgeted volumes. On the horizon, there are a few regulatory issues which may cause an uptick in filings, but for the most part, the Compact Office is projecting average filing activity for 2023.

² Actual volume is 253 compared to budgeted volume of 260 which is currently 5.5% variance between actual and budgeted annual registration revenues.

The revenue projections for next year assumes an increase in certain Compact Per Filing Fees. This fee increase is a planned one and part of the 10-year pro forma prepared in 2019 as part of the NAIC debt restructuring discussions. The Insurance Compact has only increased fees four times – 2019, 2016, 2013, and 2009.

The recommendation is to increase Per Filing Fees for product filing submissions by 15% - 25%. *See Proposed 2023 Schedule of Fees*. These categories of filing fees have remained unchanged since 2016. In the time period between 2016 and 2021, the actual expenses for the organization have increased by 45%, which includes adding four new positions and a formal strategic plan. This fee increase is intended

The recommendation includes a first-time increase in the Per Filing Fee for annual certification of individual long-term care (iLTC) rate schedules (from \$500 to \$1,000) and a new Per Filing Fee for triennial certification of iLTC rate schedules in the amount of \$1,500. Under the *Rate Filing Standards for Individual Long-Term Care Insurance*, companies with Compact-approved individual long-term care rate schedules must submit by May 1 of each year required information with respect to the sufficiency of the approved rate schedule. Further, the company must submit the updated actuarial memorandum every three years after the first full year post-Compact approval. These submissions require review by a Compact actuary and the fee increase would better align with the effort involved in ensuring compliance with the Uniform Standards.³

This change will ensure the Compact remains sufficiently resourced to accomplish its missions and goals and provide the excellent and responsive service expected by our Compacting States and company filers.

With this proposed fee increase, the additional revenue generated would be approximately \$374,000 and would result in revenues exceeding expenses for 2023.

2023 Expense Considerations

The operating expenses for 2023 proposes to grow by 5% over the 2022 expense budget. The Compact Office expects to fill an open budgeted position that will be used for coordination of key strategic and operational projects and expects to recruit for another position due to the anticipated retirement of a long-tenured team member.

The professional services line will see a decrease as the website redesign is expected to be implemented at the end of this year and several governance projects wrapped up.

The travel and meetings expense lines will see a significant increase. At the request of the Compact Officers, the organization is increasing its outreach opportunities which include planned roundtables

³ The proposed increase to the certification fees is more than 25%. The Compact *Terms and Procedures for IIPRC Filing Fees* (Filing Fee Rule) provides a particular IIPRC Fee may not be increased by more than 25% from the previous period unless such increase is approved by a two-thirds majority of the entire Commission.

across the country and sponsored exhibits and receptions at Commissioner events as well as legislative conferences. Two in-person team meetings are planned for 2023 as the team has not had the opportunity for in-person engagement since the pandemic. Further, travel and travel-related expenses have increased which affects the budgeted amount.

Conclusion

For the above reasons, the Finance Committee is recommending to the Management Committee the proposed 2023 Annual Budget and 2023 Schedule of Fees which includes a planned increase of certain Product Filing Fees.