

INTERSTATE INSURANCE
PRODUCT REGULATION COMMISSION



States, Strength & Speed Aligned

2010 Annual Report

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LETTER FROM THE OFFICERS

We are pleased to report that 2010 was another very successful year of growth and progress for the Interstate Insurance Product Regulation Commission ("IIPRC"). We experienced a substantial increase in the number of company registrations and product filings as more and more insurance companies realized the competitive and efficiency-saving advantages of preparing, filing, and marketing one product approved through the IIPRC for use in the Compacting States. We implemented the full product line of Uniform Standards for Individual Long-Term Care Insurance along with additional Uniform Standards in the individual life and annuity product lines. The legislatures in two large premium-volume states -- Illinois and New Jersey -- also recognized the benefits of the IIPRC's approach to state-based regulatory modernization by each unanimously passing the Compact legislation.

We saw a significant increase in industry utilization of the IIPRC filing platform with a 150% growth in both the number of registered companies and product filing submissions. We also demonstrated a 90% retention rate of registered companies from the previous year along with more than 40 new registered companies. Last year, we surpassed 100 registrations by companies representing a combined 40% share of the nationwide premium volume for asset-based insurance products.

For our Members, much of 2010 was focused on consideration, adoption and implementation of the Individual Long-Term Care Insurance Uniform Standards. The Compacting States demonstrated once again that they can come together in a collaborative and constructive manner to develop standard definitions, requirements and disclosures that ensure strong protections for insurance consumers.

Through our collective regulatory efforts with an ever-vigilant eye towards consumer protections, we have adopted 69 Uniform Standards providing insurers with the ability to file a wide array of individual life, annuity and long-term care products and benefit features through the IIPRC. Once reviewed and approved, they can be used in the participating Compacting States.

We are committed to the continued, yet careful, growth of the IIPRC's product operations in order to maintain the high level of quality review and responsiveness expected by Compacting States and company filers. As the quantity and complexity of our product filings continued to grow and with the addition of a new product line, the Members authorized more resources for the IIPRC's product review operations. With one reviewer added in 2010 and another reviewer and actuary expected to be added in 2011, we are delivering on our promise of speed-to-market without sacrificing a comprehensive prior review to ensure each IIPRC-approved product filing fully complies with the applicable Uniform Standards.

At the end of 2010, the New Jersey and Illinois legislatures recognized the Interstate Insurance Compact's unique capacity to maximize collaboration and uniformity among states while preserving each state's sovereign authority to regulate their insurance markets. The legislatures in both states unanimously approved legislation to join the Compact and we have worked closely with the insurance departments in both states as they fully implement their respective legislation in 2011. Thirty-eight (38) states (including Puerto Rico) have now passed the Compact legislation and represent over two-thirds of the nationwide premium volume.

We want to thank all those who have worked so hard this year to further the progressive development of the IIPRC, especially our Members and their staffs, state legislators, and consumer and industry representatives. Please take a moment to review our 2010 activities and we welcome your participation in our ongoing activities and growth.

As of December 31, 2010 the Officers were:



R.A. Sevigny
Roger A. Sevigny
Chair



Wayne Goodwin
Wayne Goodwin
Vice Chair



John M. Huff
John M. Huff
Treasurer

Past Officers in 2010:



Mary Jo Hudson
Mary Jo Hudson
Chair



Sean Dilweg
Sean Dilweg
Vice Chair



Paulette J. Thabault
Paulette J. Thabault
Treasurer



Sandy Praeger
Sandy Praeger
Treasurer

LETTER FROM THE EXECUTIVE DIRECTOR



The Interstate Insurance Product Regulation Commission ("IIPRC") reached several key milestones in 2010 including: exceeding our 100th company registration; receiving a record number of product filings; adopting and implementing the Individual Long-Term Care Uniform Standards; adding Uniform Standards for guaranteed annuity benefit features; releasing several new web-based tools for Compacting States and company filers; and having the Compact legislation unanimously passed by the legislatures in Illinois and New Jersey, respectively.

More companies chose to register and file with the IIPRC than in the two previous years combined. With 113 company registrations and 368 product filing submissions, savvy companies – large, medium and small – are leveraging the opportunity to prepare one product filing for one submission, review and approval under one set of very detailed Uniform Standards accepted by the Compacting States. With the average approval time under 60 days, companies filing through the IIPRC can realize direct and indirect costs savings and competitive benefits not only in compliance but also in the marketing of their content-standard products across the Compacting States.

We had a shining example of the IIPRC rulemaking process in action when the Members dedicated much of 2010 to consideration of the Individual Long-Term Care Uniform Standards. These Uniform Standards, effective as of December 1, were the subject of multiple rounds of public comments and deliberative, thoughtful discussion with input from Compacting States, consumer representatives, state legislators and company representatives. The outcome of this transparent and participatory process was a well-built set of consumer-oriented product and rate filing requirements that promote rate stabilization across the participating Compacting States. We worked closely with Hawaii and Indiana, who exercised their sovereign right to opt-out of these particular Uniform Standards because of circumstances unique to their respective states.

We also made a concerted effort to provide useful information for Compacting States and company filers in a variety of formats. We launched on-demand, web-based tutorials regarding important aspects of the IIPRC and its filing process, and conducted numerous webinars and presentations on the benefits of using the IIPRC. We released tools to help in the preparation of an individual long-term care insurance product filing including a rate assumptions template, reviewer checklists and relevant state-specific information. We will continue our outreach efforts in 2011 focusing on developing more tools for Compacting States and consumer-targeted information.

Finally, we are excited to welcome Illinois and New Jersey as the newest members of the IIPRC. We look forward to their participation and working with them in 2011 to fully implement their Compact legislation. We also continue to work with states that are not yet Compacting States to support their legislative efforts.

On behalf of an excellent team of professionals at the IIPRC Office, it is our privilege to support the efforts of Commissioners and the many dedicated regulators in our Compacting States along with members of the Legislative Committee, our consumer and industry advisory committees and several others who engage in the growth and process of this important state-based regulatory process. Working together, 2011 will be another year full of key milestones for the IIPRC.

A handwritten signature in black ink, reading "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 mission of the IIPRC is to assist its member states in protecting their consumers and to facilitate the ability of companies doing business in member states to deliver asset-based insurance products to the marketplace in an efficient and cost-effective manner.

BENEFITS: Consumers have the benefit of having access to products reviewed under detailed Uniform Standards with strong consumer protections. Companies have the benefit of preparing one filing, submitting it to one place and receiving one approval in 60 days or less. States have the benefit of receiving thoroughly-reviewed product filings meeting Uniform Standards, that have raised the bar with regards to product filing requirements, thus allowing departments to use their resources to focus on other important regulatory aspects of their marketplace, all while maintaining state filing revenue.

BACKGROUND: The IIPRC held its inaugural meeting in June 2006 upon adoption of the Compact by 27 states (including Puerto Rico), representing 41% of the national premium volume for life insurance, annuities, disability income and long-term care insurance. By the end of 2010, 38* states joined the Compact, representing two-thirds of the premium volume nationwide. The IIPRC initiated its product filing operations in June 2007 approving its first filings less than thirty days later. Since June 2007 and by the end of 2010, the IIPRC has adopted 69 Uniform Standards, collectively received over 200 company registrations, and has approved over 500 products in the individual life, annuity and long-term care product lines.

KEY MILESTONES:

- June 2006 – Inaugural Meeting of the IIPRC in Washington DC
- December 2006 – First Uniform Standards Adopted by IIPRC Members
- June 2007 – Operations Initiated On-Target / First Filings Received
- July 2007 – First Filings Approved
- September 2007 – Compact Fee Structure Implemented
- Spring 2008 – Experienced Regulators & Actuary join Compact Filing Operations
- January 2010 – Public Comment Period is initiated for Individual Long-Term Care Uniform Standards
- April 2010 – IIPRC Adopts Self-Certification Rule
- June 2010 – IIPRC Implements Uniform Standards for Guaranteed Annuity Benefit Features
- August 2010 – IIPRC Adopts Full Suite of Individual Long-Term Care Uniform Standards
- November 2010 – Illinois Joins the Compact; 37 Member States; New Jersey Passes the Compact
- December 2010 – First Individual Long-Term Care Insurance Product Filing Submitted

* The New Jersey Legislature adopted the Compact Legislation in November 2010; but the Governor did not sign the Bill into Law until January 2011.

MEMBERSHIP

(AS OF DECEMBER 31, 2010)



Linda Hall
*Director, Alaska
Division of Insurance*



John Postolowski
*Acting Commissioner, Colorado
Division of Insurance*



John Oxendine
*Commissioner, Georgia
Office of Insurance & Fire
Safety Commissioner*



Kathleen Nakasone
*Special Designee, Hawaii
Insurance Division*



William W. Deal
*Commissioner, Idaho
Department of Insurance*



Michael McRaith
*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
Department of Insurance*



James J. Donelon
*Commissioner, Louisiana
Department of Insurance*



Mila Koffman
*Superintendent, Maine
Bureau of Insurance*

Beth Sammis
*Acting Commissioner, Maryland
Insurance Administration*

Joseph G. Murphy
*Commissioner, Massachusetts
Division of Insurance*

Ken Ross
*Commissioner, Michigan
Office of Financial and
Insurance Regulation*

Glenn Wilson
*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*

Roger A. Sevigny
*Commissioner,
New Hampshire Insurance
Department*

John Franchini
*Superintendent, New Mexico
Division of Insurance*

Wayne Goodwin
*Commissioner,
North Carolina
Department of Insurance*

Mary Jo Hudson
*Director, Ohio
Department of Insurance*

Kim Holland
*Commissioner, Oklahoma
Department of Insurance*

Robert Pratter
*Acting Commissioner,
Pennsylvania
Insurance Department*

Ramon Cruz Colon
*Commissioner, Puerto Rico
Department of Insurance*

Joseph Torti, III
*Superintendent, Rhode Island
Insurance Division*

Scott H. Richardson,
*Director, South Carolina
Department of Insurance*

Leslie A. Newman
*Commissioner, Tennessee
Dept. of Commerce and
Insurance*

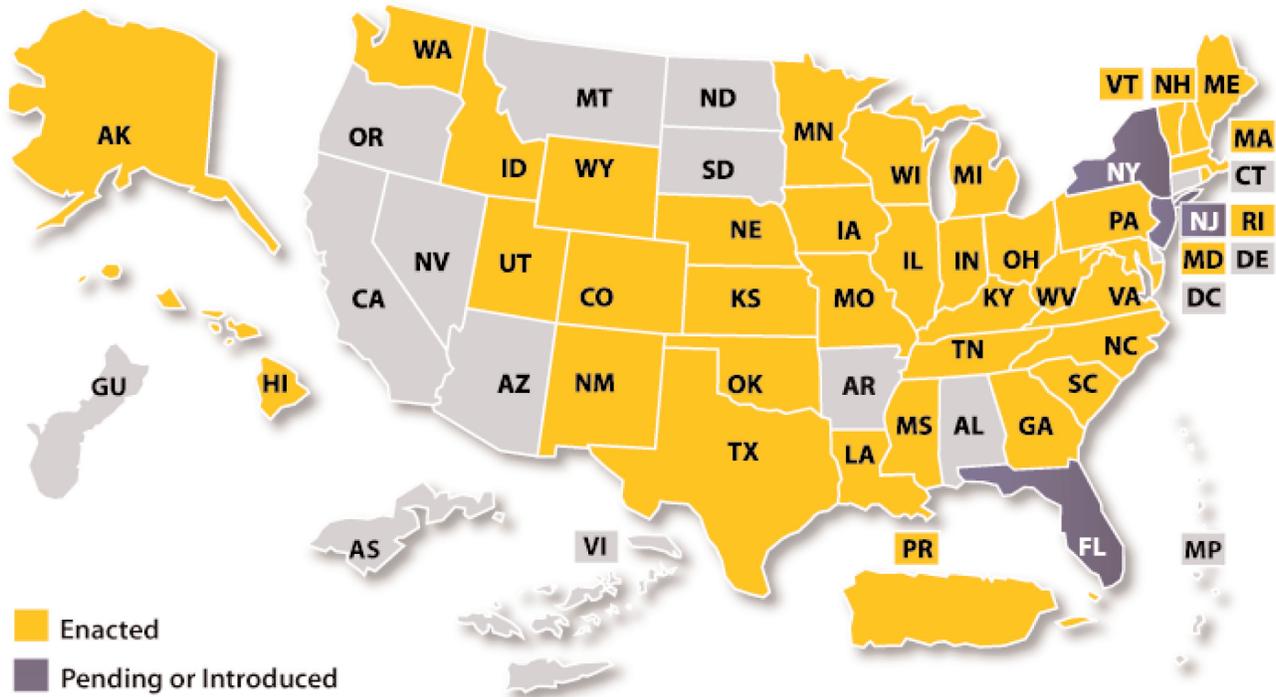
Mike Geeslin
*Commissioner, Texas
Department of Insurance*

Neal Gooch
*Commissioner, Utah
Department of Insurance*



Interstate Insurance Product Regulation Compact

As of December 31, 2010



Michael Bertrand
*Commissioner, Vermont
 Division of Insurance*

Alfred W. Gross
*Commissioner, Commonwealth
 of Virginia State Corporation
 Commission, Bureau of
 Insurance*

Mike Kreidler
*Commissioner, Washington
 Office of the Insurance
 Commissioner*

Jane Cline
*Commissioner, West Virginia
 Offices of the Insurance
 Commissioner*

Sean Dilweg
*Commissioner, Wisconsin
 Office of the Commissioner of
 Insurance*

Ken Vines
*Commissioner, Wyoming
 Department of Insurance*

2010 Past Members who Served:

*Marcy Morrison, Colorado
 Carol Cutter, Indiana
 Ralph Tyler, Maryland
 Ann Frohman, Nebraska
 Mo Chavez, New Mexico
 Joel Ario, Pennsylvania
 D. Kent Michie, Utah
 Paulette J. Thabault, Vermont*



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.

Management Committee, 2010 - 2011

Roger A. Sevigny, New Hampshire, Chair
Wayne Goodwin, North Carolina, Vice Chair
John M. Huff, Missouri, Treasurer
Michael McRaith, Illinois
Sandy Praeger, Kansas
Beth Sammis, Maryland
Ken Ross, Michigan
Mike Chaney, Mississippi
Mary Jo Hudson, Ohio
Robert Pratter, Pennsylvania
Mike Geeslin, Texas
Alfred W. Gross, Virginia
Mike Kriedler, Washington
Sean Dilweg, Wisconsin

Management Committee, 2009 – 2010

Mary Jo Hudson, Ohio, Chair
Sean Dilweg, Wisconsin, Vice Chair
Paulette J. Thabault, Vermont / Sandy Praeger, Kansas, Treasurer
Beth Sammis, Maryland
Joseph G. Murphy, Massachusetts
Ken Ross, Michigan
Glenn Wilson, Minnesota
Mike Chaney, Mississippi
John M. Huff, Missouri
Roger A. Sevigny, New Hampshire
Wayne Goodwin, North Carolina
Kim Holland, Oklahoma
Robert Pratter, Pennsylvania
Mike Geeslin, Texas
Mike Kriedler, Washington

LEGISLATIVE COMMITTEE



Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Ruth Teichman
State of Kansas

Senator Ralph Hudgens, Vice Chair
State of Georgia

Senator Delores Kelley,
State of Maryland

Representative Kurt Olson,
State of Alaska

Senator Keith Faber,
State of Ohio

Senator Brian Taniguchi,
State of Hawaii

Representative Brian Patrick Kennedy
State of Rhode Island

ADVISORY COMMITTEES



Consumer Advisory Committee

T. Ryan Wilson, American Association of Retired Persons (AARP)
Brendan Bridgeland, Center for Insurance Research
Ken Libertoff, Vermont Association for Mental Health
Sonja Larkin-Thorne, Consumer Representative
James Wenzel, Consumer Protection & Public Health Division, Office of Attorney General, State of Texas

Industry Advisory Committee

Steve Buhr, AEGON / Transamerica Group #
Michael Lovendusky, American Council of Life Insurers
Amanda Matthiesen, America's Health Insurance Plans
Marie Roche, John Hancock Life Insurance Company (U.S.A) *
William Anderson, National Association of Insurance and Financial Advisors
Tom English, New York Life Insurance Company
Maureen Emmert Adolf, Prudential Insurance Company of America #
Mary Keim, State Farm Insurance Companies
Jill Morgan, Symetra Life Insurance Company *
Nicole L. Allen, The Council of Insurance Agents & Brokers

Member in 2009 – 2010

* Member in 2010 – 2011

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, including outreach to the states, both members and non-members, as well as marketing of the IIPRC's "one-stop filing platform" with the insurance industry and ensuring that the IIPRC web-site is up to date and informational. In 2010, the Communications Committee coordinated the development of self-guided web tutorials to enhance the product filing submission process through the central point-of-filing system.

2009 – 2010: Kim Holland (OK), Chair; Glenn Wilson (MN), Vice Chair;
2010 – 2011: Mike Chaney (MS), Chair; Jane Cline (WV), 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 2010, the Finance Committee recommended amendments to the filing fee rule to update the definition for regional insurers; developed a schedule of filing fees to be adopted in conjunction with the Annual Budget and worked closely with the IIPRC Office to manage short-term and long-term financial projections.

2009 – 2010: Ann Frohman (NE), Chair; Joseph G. Murphy (MA), Vice Chair;
2010 – 2011: James J. Donelon (LA), Chair; Bruce Ramge (NE), 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 2010, the Product Standards Committee continued to meet weekly to draft and review uniform standards including ten proposed uniform standards for individual long-term care insurance products, covering the form of a policy and application, rate filings, advertisements and other related forms.

2009 – 2010: Mike Geeslin (TX), Chair; Sean Dilweg (WI), Vice Chair;
2010 – 2011: Sean Dilweg (WI), Chair; Glenn Wilson (MN), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto, prescribed in the Compact Statute and the IIPRC Bylaws. In 2010, the Rulemaking Committee proposed amendments to the Product Filing Rule to account for the submission of combination products – life/long-term care and annuity/long-term care products.

2009 – 2010: Mike Bertrand (VT), Chair; Robert Pratter (PA), Vice Chair;
2010 – 2011: Alfred W. Gross (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 other technology needs for the IIPRC. In 2010, the Technology Committee coordinated the oversight of functionality enhancements to the IIPRC's electronic filing platform to enable states to better track "mix and match" filings.

2009 – 2010: Susan Voss (IA), Chair; Wayne Goodwin (NC), Vice Chair;
2010 – 2011: Wayne Goodwin (NC), Chair; Mary Jo Hudson (OH) 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.

2009 - 2010: James J. Donelon (LA), Chair; Joseph Torti, III (RI), Vice Chair;
2010 - 2011: 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 2010, the IIPRC has adopted a total of 69 very detailed Uniform Standards including a full suite of individual life, annuity and long-term care 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.



CONSUMER PROTECTION



The IIPRC along with state regulators have drafted and adopted very detailed Uniform Standards with strong and established consumer protections. The following are some of the consumer safeguards that can be found in the IIPRC Uniform Standards.

Readability requirement: Uniform Standards require applications and policy forms meet a minimum Flesch Score readability requirement of 50. An officer must certify if all or portion of application is subject to federal jurisdiction and thus exempt from IIPRC Flesch methodology requirements.

Dispute resolution: Uniform Standards require policy to have provisions for voluntary post-dispute binding arbitration, including cost paid by company, venue convenient to claimant and arbitration to be conducted according to AAA rules before insurance-knowledgeable panel.

Assignment provision: Uniform Standards require the insurance contract to contain a provision for assignment and such provision shall not contain any restrictions on the availability of contract assignments unless required for tax qualification purposes or compliance with applicable law.

Change of beneficiary: Uniform Standards prohibit restrictions on restricting change of beneficiary other than for purposes of satisfying applicable laws or regulations.

Actuarial requirements: Detailed submission requirements for the contents of the actuarial memorandum including an appendix with a prescribed format of demonstration and certification.

Nonforfeiture annuity requirements: With regards to deferred variable and non-variable annuity products, nonforfeiture demonstration requirement is more stringent than majority of states. Due to concern about the potential for high surrender charges based on unrealistically high maturity dates, the Uniform Standards require a maturity date of the later of age 70 or the tenth anniversary of the contract (the 70/10 rule). This provision directly limits the length of the surrender charge period and indirectly the level of the surrender charge, which affects the amount of cash value available.

Interest: Uniform Standards provide interest is payable from date of death rather than from date of receipt of proof of death.

Right to Examine: Uniform Standards require 30-day free look period for replacement policies or any longer period as may be required by applicable state law where the policy is delivered or issued for delivery.

Uniform Standards require several disclosures to ensure the consumer clearly understands the nature and characteristics of the product being purchased.

Uniform Standards provide that coverage for dependents and family members shall comply with applicable state law for coverage and benefits available to partners in a legally-sanctioned domestic partnership or civil union and to their families.

Uniform Standards provide that an exception to the incontestability clause for fraud in the procurement shall be permitted by applicable state law.

OUTREACH HIGHLIGHTS



In 2010 the **Communications Committee** outlined specific areas to focus on over the course of year for outreach and education purposes. The IIPRC Office worked hard in developing specific, targeted items as well as participating in various speaking events throughout the year.

Some of the outreach highlights from 2010:

March 2010 – Identified for the Compacting States their domestics and encouraged them to solicit their participation in the IIPRC filing process.

May 2010 – Issued the initial issue of *Up to Speed with the Compact* an electronic newsletter focusing on tips and tricks for submitting product filings as well as news tidbits about the IIPRC.

June 2010 – Launched three self-guided, web-based tutorials regarding the basic IIPRC principles and information. The topics of these tutorials are a basic overview of the IIPRC, an overview of the tools available for submitting product filings to the IIPRC and an overview of the steps needed for submitting a product filing to the IIPRC.

November & December 2010 – Hosted long-term care themed webinars to assist with the product filing submission process for the newest product line to be launched with the IIPRC. These webinars were highly attended by both state regulators and interested industry filers.

Speaking Events

The members of the IIPRC and IIPRC Office participated in the following speaking events throughout the course of the year.

- AICP Chapter Education Days to include the Mid-Atlantic, Heartland, Great Lakes Chapter, Gulf States
- AICP Annual Convention
- Insurance Regulatory Examiners Society (IRES) Career Development Seminar
- Insured Retirement Institute (IRI) Compliance Conference
- Life & Health Compliance Association (LHCA)
- NAIC E-Regulation Day
- National Conference of Insurance Legislators (NCOIL)
- National Conference of State Legislatures (NCSL)
- Society of Actuaries

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

Up to **SPEED** with the Compact

VOLUME 1, ISSUE 1 MAY 1, 2010

SPECIAL POINTS OF INTEREST:

- Website Enhancements
- Special In-Person IIPRC Meeting on May 18 in DC
- Oregon & IIPRC Approved Filings
- SERFF Enhancements
- Upcoming Events

IN-PERSON DC MEETING MAY 18

The IIPRC will convene an in-person Joint Management Committee and Commission Meeting on Tuesday, May 18, in Washington, DC at the Washington Court

A MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to bring you up-to-speed on the exciting developments at the IIPRC through our first online newsletter. We plan to publish this newsletter quarterly to keep everyone informed of current and upcoming events as well as address commonly-asked questions. Today, we have 86 companies registered to file with the IIPRC and 36 member states accepting IIPRC-approved products under 57 Uniform Standards. Even more impressive, we have several hundred individuals participating or following the IIPRC process. We appreciate and encourage your continued participation, feedback and questions as we work together to build a speed-to-market filing platform for asset-based products based on strong uniform standards and consumer protections. And we commit to keeping you up-to-speed!

A New Look for the Record & Docket

The IIPRC has made user-friendly enhance- You now have more reason than ever to add ments to the Record and Docket. These www.insurancecompact.org to your list of fa-

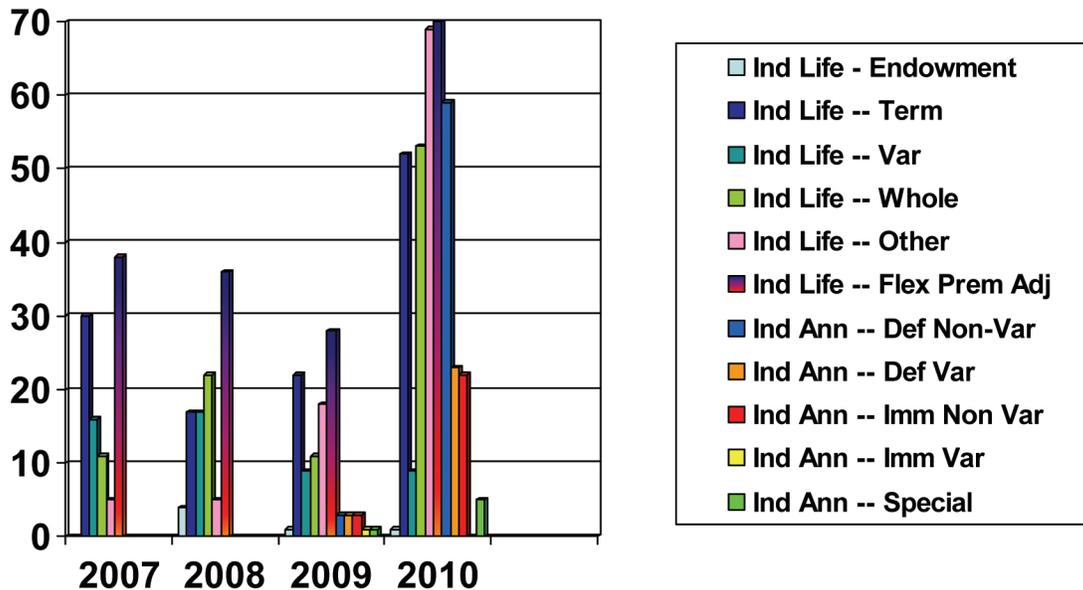


PRODUCT FILING STATISTICS

The tables below provide statistics on the product filings submitted to the IIPRC since first accepting product filings in June 2007 through December 31, 2010.

	2010	% of Growth (09/10)	2009	2008	2007
Companies Registered	113	153%	74	38	N/A
Filings received	368	151%	244	106	36
Forms Submitted	1,456	111%	1,314	395	113
Amended Filings	40	-	-	-	-
Products Approved	320	115%	279	126	29
Transactions *	8,446	113%	7,494	3,063	552
Approval Time (average) **	42	-	28	25	35
Average # of states/filing	26	-	28	25	25
Mix & Match %	63%	-	75%	75%	100%
State filing fees collected	\$ 735,683	147%	\$499,942	\$139,910	\$62,965
IIPRC filing fees	\$ 225,442	209%	\$107,900	\$68,730	\$18,050

Percentage of Filings Received Broken Down by TOI



* "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 20 TOIs available for filing using the **69 adopted Uniform Standards** with **97 various sub-TOIs available**.
- ☆ **754 products have been approved** by the IIPRC to date since June 2007; which equates to **19,003 SERFF transactions**.
- ☆ The Types of Insurance (TOI) for the Product Filings submitted through SERFF for Compact Filings:
 - LIFE (69% of all filings received):
 - 28 % have been Flexible Premium Adjustable
 - 27 % have been TOI – Other
 - 20 % have been Term Life Products
 - 21 % have been Whole Life Products
 - 3.5 % have been Variable Life Products
 - 0.5 % have been Endowment Life Products
 - ANNUITIES (30% of all filings received):
 - 54 % have been Deferred Non-Variable Annuity
 - 21 % have been Deferred Variable Annuity
 - 20 % have been Immediate Non-Variable Annuity
 - 5 % have been Annuity – Special
 - LONG-TERM CARE (1% of all filings received)
- ☆ Of the companies who filed in 2010:
 - 2% have filed more than 20 times
 - 2% have filed 10 – 20 times
 - 13% have filed more than 6-10 times
 - 56 % have filed 2 to 5 times
 - 27 % have filed one time
- ☆ Of the current registered companies who were registered in 2009, 65 re-registered in 2010 demonstrating a retention rate of 90%.
- ☆ The 113 companies who registered in 2010 represented approximately 40% of the national premium volume. 106 registered companies submitted filings.
- ☆ There have been over 3,500 forms submitted with product filing submissions. The average number of forms per filing is 5. In 2007, the most forms submitted in one product filing were 17; in 2010, the most forms submitted in a single submission was 63.

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 (the "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 2010 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

Balance Sheet

Normal operating activities and borrowings from the NAIC have resulted in a cash and cash equivalents balance of \$237,594 as of December 31, 2010 compared to a balance of \$163,362 at the end of 2009. Pursuant to the 2010 line of credit approved in December 2009, the first draw of \$200,000 occurred on June 15 and the second draw of \$250,000 occurred on September 15.

The IIPRC ended the year with accounts receivable of \$550 representing prepaid travel expenses. This compares to a balance of \$27,644 at the end of 2009, which represented registration and filings fees received on the last day of December 2009 that were satisfied by electronic payments on the first day of January 2010.

In June 2006, the IIPRC approved the use of the NAIC's System for Electronic Rate and Form Filing (SERFF) as the central filing point for IIPRC transactions. A capital asset of \$126,902 was established in 2006 for the costs associated with acquiring a SERFF license and enhancements to meet IIPRC requirements. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF application to meet IIPRC requirements, such as the establishment of a multistate product filing platform, the collection and remission of member state filing fees, and the submission of IIPRC fees. Amortization, the allocation of the cost of this asset over its estimated three year useful life, began in 2007 with the receipt of the first IIPRC filing reducing the stated value of this asset to \$0 by year end 2010.

Other assets result from contractual benefit obligations.

Accounts payable consists of expenditures incurred by the NAIC on behalf of the IIPRC creating a liability to the NAIC for the reimbursement of these expenditures in the amount of \$15,951 at the end of 2010. The remaining balance relates to payments due to vendors.

Accrued expenses is comprised of balances due by the end of 2010 for which an invoice has not been received and amounts earned, but not paid before year end, by employees to complete a full year reporting on wages and benefits.

In 2010, the IIPRC received \$172,500 for 2011 annual registration fees and requests from three companies to carry their 2010 registration fee into 2011. These fees will be recognized as revenue in 2011. Per the Terms and Procedures for IIPRC Filing Fees, companies that did not make a filing in the year in



which they paid their registration fee may request, in writing by January 31, of the following year, that their registration fee be carried forward and applied to the next annual registration period (note this Rule was amended in 2010 to remove this provision for the 2011 registration period and beyond).

Other long-term liabilities result from contractual benefit obligations.

The net asset deficit presents a cumulative loss on operations of \$2,184,529 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 operations, including one that had a 16-month operational set-up period before the receipt of revenue-generating transactions. Management forecasts that IIPRC expects to generate revenue sufficient to cover operating expenses by 2012.

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 a \$500 fee for each product filing submitted to the IIPRC for review. However, regional companies pay a lower registration and per filing fee (note this Rule was amended in 2010 to change the definition of a regional filer from a company filing in 5 or less compacting states to 12 or less compacting states).

The IIPRC began to experience an increase in filings in early 2009 and sustained that increase throughout 2009 and 2010. In 2009, 74 companies registered with the IIPRC and 251 product filings were received. In 2010, 113 companies registered with the IIPRC and 368 product filings were received; however, 3 of the companies that registered did not make filings in 2010 and requested to carry their registration fee over to 2011.

The increase in salaries expense in 2010 represents a full year of salary for the Executive Director, this position was vacant for half of the 2009 reporting year. The IIPRC employs two additional individuals to support operational functions. The position of Administrative Assistant/Coordinator was vacant for two months.

The increase in benefit expense is related to contractual benefit obligations.

Professional services include consulting fees, fees for services from the NAIC, outside legal counsel, and the annual independent audit firm. In 2007, the IIPRC seconded or borrowed on a part-time basis three employees from Member states. In 2008, the IIPRC retained the full-time product review consultant, the full-time development consultant and the part-time actuarial consultant. In July 2010, the IIPRC hired a part-time product reviewer consultant and converted her to a full-time consultant on October 1. This additional consultant, combined with an hourly rate increase effective January 1, 2010 for the actuarial consultant, accounts for the majority of the \$56,738 increase in professional services from 2009 to 2010.

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, and the review of governance matters and financing arrangements.

MANAGEMENT'S DISCUSSION & ANALYSIS



Depreciation and amortization expense represents the allocation of the cost of acquiring the SERFF license over the estimated three year useful life of the asset and began in 2007 with the receipt of the first IIPRC filing, ending in May 2010. Depreciation expense also includes the depreciation of computer equipment used by IIPRC employees and consultants in carrying out their IIPRC duties. This equipment is depreciated over three years.

Interest expense includes accrued interest on amounts drawn under the NAIC lines of credit. The interest expense is less than in 2009 as a result of the note restructure discussed earlier.

Training expenses were not incurred in 2010 due to management's decision to focus on other operational issues during 2010.

Recruiting expenses in 2009 were related to the hiring of the Executive Director position. No recruiting expenditures were required in 2010.

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. The deferral of debt repayment reduced IIPRC draws on the \$850,000 line of credit approved for 2010 to \$450,000. Draws on this line of credit were made on June 15 and September 15 of \$200,000 and \$250,000, respectively. 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.

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 2011 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 third full calendar year of product filing review operations in 2010. The IIPRC generated \$423,400 in filing and registration fees during 2009 and \$691,442 in 2010, a 163% increase. IIPRC revenue growth slowed in early 2009 due to insurance company concerns that the timeline associated with the ability to use IIPRC-approved filings with state-approved filings would be difficult to meet because of legal, operational and system issues. In July 2009, the IIPRC amended the mix and match rule to remove a deadline, which was accompanied by an increase in registrations and filings.

In 2010, the IIPRC's budgeted revenue was much more in line with actual revenue than in any of the IIPRC's previous budget years. The IIPRC was able to better identify and address the drivers associated with the variance between actual and budgeted revenue projections. The IIPRC amended its Terms and Procedures for IIPRC Filing Fees to remove the provision for carryover of a company's annual registration



fee and to amend the “regional filer” to 12 or less Compacting States in order to encourage more regional companies to utilize the Compact.

Another key reason the actual registration revenue fell below budget was attributed to the discounted registration fee offered to companies that registered with the IIPRC by or before January 31, 2010. The IIPRC offered a \$500 discount which approximately 70 companies took advantage of by registering by the end of January creating a \$35,000 variance.

By the end of 2010, thirty-six Compacting States were accepting IIPRC-approved product filings representing 60% of the nationwide premium volume and companies representing 41% of the asset-based premium volume written nationwide were registered to file with the IIPRC. While the Illinois and New Jersey legislatures both unanimously passed the Compact last year, no new Compacting States became operational in 2010 and individual long-term care uniform standards were not implemented until December. Continued growth and expansion of the IIPRC’s product operations is forecasted for 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 2010 and 2009. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Executive Director, at (202) 471-3962.

HIGHLIGHTS





AUDIT REPORT



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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, 2010 and 2009 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, 2010 and 2009, and the changes in its net deficit and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Leawood, Kansas
February 28, 2011

A handwritten signature in black ink that reads 'Mayer Hoffman McCann P.C.'.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 237,594	\$ 163,362
Accounts receivable	550	27,644
Interest receivable	1	3
Prepaid expenses	6,738	5,317
TOTAL CURRENT ASSETS	<u>244,883</u>	<u>196,326</u>
LONG-TERM ASSETS		
Property and equipment, net	156	21,289
Other long-term assets	45,401	20,440
TOTAL LONG-TERM ASSETS	<u>45,557</u>	<u>41,729</u>
TOTAL ASSETS	<u>\$ 290,440</u>	<u>\$ 238,055</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 27,979	\$ 47,951
Current portion of note payable to the NAIC	-	282,296
Accrued expenses	37,541	36,639
Deferred revenue	177,600	118,000
TOTAL CURRENT LIABILITIES	<u>243,120</u>	<u>484,886</u>
LONG-TERM LIABILITIES		
Note payable to the NAIC, less current portion above	2,186,448	1,476,732
Other long-term liabilities	45,401	20,440
TOTAL LONG-TERM LIABILITIES	<u>2,231,849</u>	<u>1,497,172</u>
TOTAL LIABILITIES	<u>2,474,969</u>	<u>1,982,058</u>
NET DEFICIT		
Unrestricted	(2,184,529)	(1,744,003)
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 290,440</u>	<u>\$ 238,055</u>

See Notes to Financial Statements

AUDIT REPORT



INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Annual registrations	\$ 466,000	\$ 292,500
Product filing fees	225,442	130,900
Interest income	20	97
TOTAL REVENUES	<u>691,462</u>	<u>423,497</u>
EXPENSES		
Salaries	285,778	207,859
Employee benefits	79,790	56,570
Professional services	560,312	503,574
Travel	69,873	68,591
Rental and maintenance	1,900	3,295
Depreciation and amortization	21,133	46,000
Interest expense	42,416	50,179
Insurance	18,540	14,675
Office services	38,338	35,874
Meeting expenses	13,908	10,813
Training	-	9,974
Recruiting	-	3,398
TOTAL EXPENSES	<u>1,131,988</u>	<u>1,010,802</u>
CHANGES IN NET DEFICIT	(440,526)	(587,305)
NET DEFICIT, BEGINNING OF YEAR	(1,744,003)	(1,156,698)
NET DEFICIT, END OF YEAR	<u>\$ (2,184,529)</u>	<u>\$ (1,744,003)</u>

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net deficit	\$ (440,526)	\$ (587,305)
Adjustments to reconcile changes in net deficit to net cash flows from operating activities		
Depreciation and amortization	21,133	46,000
Interest expense included in note payable	47,216	25,201
Changes in operating assets and liabilities		
Accounts receivable	27,094	(21,929)
Interest receivable	2	5
Prepaid expenses	(1,421)	(1,383)
Accounts payable	(19,972)	(10,082)
Accrued expenses	902	(13,393)
Deferred revenue	59,600	13,000
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(305,972)</u>	<u>(549,886)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from NAIC	450,000	550,000
Principal payments to NAIC	(69,796)	(189,618)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>380,204</u>	<u>360,382</u>
CHANGE IN CASH AND CASH EQUIVALENTS	74,232	(189,504)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	163,362	352,866
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 237,594</u>	<u>\$ 163,362</u>

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, 2010 and 2009, the IIPRC had 37 and 36 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:

<u>Description</u>	<u>Estimated Useful Lives</u>
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, 2010 and 2009 net assets 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, 2010 and 2009 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.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

	<u>2010</u>	<u>2009</u>
Hardware	\$ 11,098	\$ 11,098
Software	126,902	126,902
Total cost	<u>138,000</u>	<u>138,000</u>
Accumulated depreciation	<u>(137,844)</u>	<u>(116,711)</u>
Net property and equipment	<u>\$ 156</u>	<u>\$ 21,289</u>

(3) Other long-term assets

Other long-term 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 long-term liabilities on the December 31, 2010 and 2009 balance sheets. Contributions to the plan totaled \$20,000 for the years ended December 31, 2010 and 2009. The participant assumes all the risks and benefits associated with the losses and gains from the investments of the plan.

(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 fourth 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. An advance of \$200,000 was drawn in June 2010 and another in the amount of \$250,000 occurred in September 2010, leaving \$400,000 available under the line.

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 2011 will be considered by the NAIC at the NAIC 2011 Spring National Meeting.

	<u>2010</u>	<u>2009</u>
Notes payable to the NAIC	\$ 2,186,448	\$ 1,759,028
Current portion	<u>-</u>	<u>282,296</u>
Noncurrent portion	<u>\$ 2,186,448</u>	<u>\$ 1,476,732</u>

(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, 2010 and 2009. The IIPRC also pays

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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:

	<u>2010</u>	<u>2009</u>
Administrative services provided by NAIC	<u>\$ 125,000</u>	<u>\$ 125,000</u>
License fee paid to NAIC	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Amounts payable to NAIC	<u>\$ 15,951</u>	<u>\$ 30,232</u>
Accrued interest on note payable to NAIC	<u>\$ -</u>	<u>\$ 13,246</u>

(6) Defined contribution plan

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, 2010 and 2009, 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 \$13,407 and \$4,887 for the years ended December 31, 2010 and 2009, respectively.

(7) Cash flow disclosures

	<u>2010</u>	<u>2009</u>
Cash paid for interest	<u>\$ 8,446</u>	<u>\$ 32,887</u>

(8) Subsequent events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2010 through February 28, 2011. 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, 2010.



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