

TO SERVE & PROTECT IN THE DIGITAL AGE

2015

NATIONAL ASSOCIATION of
INSURANCE COMMISSIONERS
ANNUAL REPORT



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& TECHNOLOGY

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OPERATIONS, DATA & TECHNOLOGY

Association Highlights

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate their regulatory oversight. Its staff supports these efforts and represents state regulators' collective domestic and international views. Its members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

The NAIC provides its members a national forum for discussing common issues and interests, while working cooperatively on matters shared across jurisdictions. Collectively, commissioners work to develop model legislation, rules, regulations and white papers to coordinate regulatory policy. The overriding objective is to protect consumers and help maintain the financial stability of the insurance marketplace.

With its wide range of services, the NAIC supports the work of its committees, the state insurance departments, state and federal officials and the public. The association maintains three offices: the Executive Office, located in Washington, D.C.; the Central Office, in Kansas City, Mo.; and the Capital Markets & Investment Analysis Office in New York City.

The NAIC – home of the world's largest insurance financial database – maintains extensive systems linking all state insurance departments and provides financial, actuarial, legal, research, technology, market conduct and economic expertise. Staff research and create standard and custom reports, develop uniform statutory financial statements, monitor federal activity, submit legal briefs, conduct educational training programs and much more.

The Center for Insurance Policy and Research (CIPR) leverages NAIC resources to collect and analyze information provided to officials, agencies and policymakers in the U.S. and abroad. Through

seminars, presentations and publications, CIPR efforts strengthen: Coordination with federal, state and international agencies and regulators; Understanding of insurance-related topics and issues by thought leaders; Information exchange between the states and the federal government; and NAIC and state regulator participation in public policy decisions affecting insurance and the broader financial services sector.

NAIC Operations

To provide the highest quality of member service requires a talented and dedicated workforce. The NAIC is dedicated to creating a work environment that results in high job satisfaction with our employees. The association provides flexible work options – including flex scheduling and work-from-home opportunities, which promote work-life balance. The association also has an Infants in the Workplace program that allows parents to bring their newborn to work. In its 15th year, the NAIC welcomed eight new babies to the NAIC office, meaning 140 babies have accompanied their parents to work since the program's inception.

One of the results of the association's culture is our low employee turnover rate. The NAIC had just a 4% net turnover in 2015.

Member Services

The NAIC is dedicated to providing the best possible services to its members through education and training, new member orientation and sponsoring regulator travel to meetings.

In 2015, the association hosted three National Meetings – in Phoenix, Ariz., Chicago, Ill. and National Harbor, Md. – with a total of 6,416 attendees. The NAIC also held 70 interim meetings and 3,677 meetings via conference call. The NAIC made it possible for each member department to send a second senior regulator to NAIC-sponsored meetings at no cost to the state insurance departments.

With change in our membership, the NAIC implemented a new member outreach initiative in 2015. A NAIC executive staff member traveled to meet with each of the new commissioners and directors within a month of taking office. This new program is an opportunity for an orientation to the association and its resources, as well as a chance to connect with key staff members to answer any questions they may have.

In 2015, the NAIC also provided more than 60 free education and training courses for state regulators.

CIPR Events

The NAIC held several well-attended symposiums hosted by the Center for Insurance Policy and Research (CIPR). Events included The Risk of Pandemics to the Insurance Industry at the Spring National Meeting Boom or Bust, a Look at Retirement Issues Facing Baby Boomers in June, All Things Earthquake during the Summer National Meeting and Regulation of Captives during the Fall National Meeting.

The center also published four editions of its CIPR Newsletter in 2015 as well as a new study on telematics (Usage Based Insurance and Vehicle Telematics: Insurance Market and Regulatory Implications).

NAIC Cybersecurity Enhancements

The NAIC's focus on cybersecurity came to the forefront in 2015. Data breaches within the insurance industry led the association to make cybersecurity enhancements. To accommodate these improvements, the NAIC expanded its footprint in our Central Office in Kansas City by leasing additional office space on a new floor.

In 2015, the NAIC hired its first chief technology officer as well as seven new cybersecurity staff members to strengthen our efforts in this area.

In total, the NAIC spent \$1.2 million on its cybersecurity initiatives in 2015.

State Based Systems

State Based Systems (SBS) is an electronic system owned by the NAIC designed to provide a comprehensive, web-based application for use by state regulators in support of insurance regulatory functions.

SBS offers a variety of products for producer licensing, company licensing, continuing education tracking,

consumer services, enforcement, fraud reporting, exam tracking and revenue management.

The Wisconsin Office of the Commissioner of Insurance joined and implemented SBS in 2015, making it the 29th state to license SBS. SBS is currently the system of choice in Alabama, Alaska, Arizona, Arkansas, Delaware, the District of Columbia, Florida, Illinois, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Puerto Rico, Rhode Island, Tennessee, U.S. Virgin Islands, Wisconsin and West Virginia. Limited SBS services are also licensed by South Carolina and Virginia.

I-SITE

I-SITE is an online regulator-only interface designed for state insurance departments to obtain comprehensive financial, market conduct and producer licensing information. I-SITE offers regulators access to NAIC database information through a variety of standardized reports including summary reports, batch reports, and detailed lookup reports.

The NAIC is constantly updating and enhancing the I-SITE application to meet regulator needs and ensure compliance with blanks changes. I-SITE is also consistently upgraded to meet new security requirements to ensure our application and data are secure.

A new application, the Market Actions Tracking System (MATS), will replace the Examination Tracking System (ETS) and the Market Initiatives Tracking System (MITS) in I-SITE. MATS incorporates existing functionality from both ETS and MITS, and includes functions for calling, updating, closing and viewing market actions, for accessing information about the states and people involved and for tracking an action's schedule and results. The I-SITE Statutory Group Profile Report is a new application report that provides a five-year look at the combined U.S. statutory insurance entities within a group. These include: select assets, liabilities, surplus; income statement; direct writings segmentation; ratio analysis section covering leverage, profitability, and asset quality; and key financial data for each insurer in the group.

2015 NAIC Organizational Chart

Senator Ben Nelson, Chief Executive Officer

Andrew J. Beal, Chief Operating Officer & Chief Legal Officer

Kay Noonan
General Counsel

Jim Woody
Chief Financial Officer

Scott Morris
Chief Technology Officer

Frosty Mohn
Chief Security &
Information Officer

Christina Urias
Managing Director,
International Insurance
Regulatory Affairs

Jeff Johnston
Senior Director,
Financial Regulatory
Affairs, Domestic
Policy & Implementation

Elise Liebers
Senior Director,
Financial Regulatory
Affairs, International
Policy & Market
Surveillance

Ethan Sonnichsen
Director,
Government Relations

Eric Nordman
Director, Regulatory
Services and
Center for Insurance
Policy & Research

Trish Schoettger
Director,
Member Services

Scott Holeman
Director,
Communications

Todd Sells
Director, Financial
Regulatory Policy
& Data

Dan Daveline
Director, Financial
Regulatory Services

Charles Therriault
Director, Securities
Valuation Office

Eric Kolchinsky
Director,
Structured Securities
Group

Ed Toy
Director,
Capital Markets
Bureau

Ramon Calderon
Director,
International
Policy

Denise Matthews
Director,
Information
Systems

Kris DeFrain
Director, Research
& Actuarial
Services

Tim Mullen
Director,
Market
Regulation

Brent Roper
Director, Human Resources



FINANCIAL REGULATION

Financial examinations and analysis processes are central to effective solvency oversight. By employing sophisticated analytical tools and expert resources, regulators minimize insolvencies and their profound impact on policyholders and the marketplace.

The Financial Condition (E) Committee and the Financial Regulation Standards and Accreditation Program work in tandem to maintain the U.S. system of solvency regulation.

Group Supervision

All 50 states, D.C. and Puerto Rico have passed key amendments to their holding company statutes, which will aid in assessing the potential contagion risks present in the business enterprise that include insurers. Updating the NAIC's Holding Company Act was one of the NAIC's initial responses to the financial crisis to improve group supervision. In just five years since the NAIC developed the model, states have passed this flagship legislation nationally, bolstering our approach to group supervision.

Thirty-four states have adopted legislation based on the NAIC Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act, which among other things, requires insurance groups above a certain size to file an annual ORSA Summary Report with their lead state. In 2014, the NAIC adopted additional revisions to the Insurance Holding Company System Regulatory Model Act, which provide clear legal authority for a state insurance commissioner to act as a group-wide supervisor for a defined class of internationally active insurance groups and further defines the activities the commissioner may engage in related to such authority.

At the end of 2015, the NAIC adopted a new charge to the Financial Condition (E) to construct a U.S. group capital calculation using a risk-based capital (RBC) aggregation methodology. In developing this calculation, the committee is charged with considering group capital developments by the Federal Reserve Board as well as similar developments on international

capital standards. State insurance regulators continue to enhance their group supervisory framework through these efforts and their ongoing involvement in U.S. and non U.S. lead supervisory colleges.

Reinsurance

Under the 2011 revisions to the NAIC Credit for Reinsurance Model Law and Regulation (Revised Reinsurance Models), reinsurers from a qualified jurisdiction are eligible to be certified for reduced reinsurance collateral requirements. To date, 32 states have passed the revised Model Law (#785), with 19 jurisdictions also adopting the revised Model Regulation (#786), covering approximately 66% of the direct insurance premium written in the U.S. across all lines of business. The Financial Regulation Standards and Accreditation (F) Committee is considering making the certified reinsurer provisions a uniform accreditation standard requirement for all NAIC accredited jurisdictions.

The NAIC adopted the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions, and evaluated and approved seven jurisdictions (Bermuda, France, Germany, Ireland, Japan, Switzerland and the United Kingdom) for inclusion on the NAIC List of Qualified Jurisdictions.

The Reinsurance Financial Analysis Working Group of the Financial Condition (E) Committee was established to provide a peer review process for certified reinsurer designations. The working group's mission is to facilitate consistency among the states and to coordinate multi-state efforts. To date, the working group has approved 27 certified reinsurers. They also adopted the Uniform Application Checklist for Certified Reinsurers, to provide further guidance and ensure consistency across the states' certification processes.

On Jan. 8, 2016, the NAIC adopted revisions to the Credit for Reinsurance Model Law (#785), which provide the commissioner with the authority to adopt regulations with respect to the following types of captive reinsurance transactions: XXX/XXX; Long-Term

Care; Variable Annuities; and any other life, health or annuity products for which the NAIC adopts model regulatory requirements with respect to credit for reinsurance.

Principle-Based Reserving

The NAIC continued work to implement principle-based reserving (PBR), including addressing regulatory and NAIC staff resources, developing analysis and examination procedures, changes to the statutory blanks and creating a Valuation Analysis (E) Working Group to provide consistent oversight and application across each jurisdiction. PBR will become effective when 42 states representing at least 75% of U.S. premium volume adopt the revised Standard Valuation Law (SVL). Thirty-nine jurisdictions representing approximately 72% of premium have adopted the SVL.

Use of Captives by Life Insurers

In 2014, the NAIC adopted a conceptual reinsurance framework for life insurers' use of captives for business subject to Regulation AXXX and/or the Valuation of Life Insurance Policies Model Regulation, commonly referred to as Regulation XXX. Several important components of this framework were adopted in 2014 and almost all of the other components were adopted in 2015, including new risk-based capital requirements and additional disclosure within the annual audit report.

The Financial Regulation Standards and Accreditation (F) Committee adopted changes to its Preamble that requires states to subject captives that assume XXX or AXXX business from U.S. ceding insurers to the full scope of the required laws and regulations in the accreditation program unless the U.S. ceding insurer(s) for which the captive assumes business meets the conceptual reinsurance framework.

With the XXX and AXXX nearly completed the NAIC shifted its focus in 2015 to the next major category of captive reinsurance used by life insurers— variable annuities. The NAIC formed a Variable Annuities Issues (E) Working Group and by year-end, developed and adopted a framework for change which sets forth a commitment for the organization to make changes to the statutory framework for variable annuities. The details of changes are expected to be developed in 2016 and the NAIC plans to have new standards in place by the end of 2017.

Financial Regulation Standards and Accreditation Program

The NAIC Financial Regulation Standards and Accreditation Program was established to maintain standards to promote effective financial solvency regulation. NAIC accreditation allows non-domestic jurisdictions to rely on the accredited domestic regulator to fulfill baseline financial regulatory oversight. Currently all 50 states, the District of Columbia and Puerto Rico are accredited, making regulation more efficient and coordinated. Accreditation also creates far greater efficiencies for insurance companies, which are then not subject to burdensome or repetitive regulation.

In 2015, the NAIC conducted nine full accreditation reviews, 43 interim annual reviews and eight pre-accreditation reviews. The NAIC voted to update the Part A: Laws and Regulations Preamble to include in the scope of the Accreditation Program certain captives and special purpose vehicles that assume XXX/AXXX business. The Risk Management and Own Risk and Solvency Assessment Model Act was voted to be included as a new Part A Accreditation Standard. Additionally, various accreditation guidelines were revised for related updates to the risk-focused surveillance process.

International Insurers Department

The International Insurers Department (IID) functions as a national gatekeeper for non-U.S. insurers to gain access to the U.S. excess and surplus lines markets. This function includes solvency monitoring and trust account maintenance of all NAIC-listed insurers, as well as oversight and analysis of the process for considering new applications. During 2015, six new insurers were added, offset by two withdrawals, resulting in a net increase to 144 listed entities on Jan. 1, 2016. The most recent financial statistics (from 2014) reflect that listed insurers wrote direct surplus lines' premiums of nearly \$11.5 billion, or approximately 29% of the \$40.3 billion in total of U.S. surplus lines' premiums written for the year. At year-end 2015, listed insurers maintained \$4.7 billion in trust assets which are held as collateral against gross claim liabilities estimated at \$18.1 billion.

Securities Valuation Office

The NAIC's Securities Valuation Office (SVO) is comprised of investment professionals who assess the credit risk of insurer investments. The SVO assigns an NAIC designation, a measure of credit risk, to filed insurer investments. In 2015, the SVO received filings from 1,401 insurers. These filings covered 12,997 securities with an insurer total carrying value of approximately \$560 billion. This unique capability allows the NAIC to assess investment credit risks through its own independent regulator-driven process instead of relying exclusively on nationally recognized statistical rating organizations. The NAIC designation and other analysis produced by the SVO are used in regulatory processes to monitor insurers, including the appropriateness of the risk-based capital investment charges.

Mortgage-Backed Securities

The NAIC's Structured Securities Group (SSG) is an internal team of investment professionals that builds upon the NAIC's technical expertise to provide specialized analysis, valuation, research and reporting for structured securities. The NAIC first began modeling expected losses for non-agency residential mortgage-backed securities (RMBS) owned by insurance companies as of the end of 2009. This project was successful and expanded in 2010 to include commercial mortgage-backed securities (CMBS).

For 2015, SSG modeled 5,310 unique CMBS and 22,406 unique RMBS CUSIPs. The book values of these securities were approximately \$152 billion for CMBS and \$101 billion for RMBS.

Capital Markets

The NAIC Capital Markets Bureau (CMB) provides a macroprudential view in support of the efforts of state insurance regulators. The CMB monitors trends, developments and activity in financial markets around the world, analyzes the potential impact on investment activities and portfolios of U.S. insurance companies and reports on the results to state insurance regulators, as well as publishing reports that are available to both regulators and the general public. In 2015, the group published 15 Capital Markets Special Reports. These reports include updates on U.S. insurer exposures to various investment markets, as well as topical issues such as whether insurers are reaching for yield in the low interest rate environment, developments in the derivatives market and regulation and their impact on hedging costs, the impact of declining oil prices and trends in third-party investment management. The CMB also provides quick updates on current events prominent in the capital markets through periodic Hot Spots. In 2015, these alerts focused on equity market volatility, turmoil in Greece and Puerto Rico, the city of Chicago rating downgrade and volatility in major foreign currencies.



MARKET REGULATION

Through the work of the Market Regulation and Consumer Affairs (D) Committee, state insurance regulators protect and serve consumers through monitoring all aspects of the market regulatory process for continuous improvement.

In 2015, the NAIC held the second Market Regulation Summit, where state insurance regulators set priorities for market conduct regulatory activities. Attendees also exchanged perspectives on regulatory best practices and discussed shared challenges and insights into industry practices.

Market Conduct Annual Statement

The Market Conduct Annual Statement (MCAS) provides a uniform system of collecting market conduct information for personal lines annuities, life insurance, homeowners and private passenger automobile insurance as well as long-term care insurance. In 2015, there were 47 participating jurisdictions, up from 29 when the program launched in 2009. In addition, 2015 was the first year in which data on long-term care insurance was collected. The NAIC assists member jurisdictions by receiving MCAS filings, validating data and enhancing the analysis of market conduct information across all participating jurisdictions. The NAIC received 30,208 MCAS filings to be centrally stored in 2015, a 16.68% increase in filings over 2014.

Complaints Database System

Our 56 member jurisdictions submitted a total of 189,295 complaints to the NAIC's Complaints Database System (CDS) in 2015. This database contains information about closed consumer complaints filed against insurance entities and producers. The CDS automates the collection and storage of complaint data submitted by state insurance departments. The departments can then leverage nationwide data otherwise unavailable to them individually.

Regulatory Information Retrieval System

The Regulatory Information Retrieval System (RIRS) contains records of regulatory actions finalized by state insurance departments against entities engaged in the business of insurance. States entered 7,799 actions into the database in 2015.

Online Fraud Report System

Increased reporting to the jurisdictions helps reduce fraud, which helps cut insurers' expenses, protects consumers and reduces costs that otherwise lead to higher premiums. NAIC-member jurisdictions use the Online Fraud Report System (OFRS) to receive referrals of suspected fraud from consumers and the insurance industry. The NAIC also receives reports from the National Insurance Crime Bureau (NICB). The NAIC received 60,764 reports in 2015 that were made available to members.

State regulators protect consumers by ensuring insurance policy provisions comply with state law, are reasonable and fair, and do not contain major gaps in coverage that might be misunderstood by consumers and leave them unprotected.



CONSUMER EDUCATION

We want insurance consumers to make informed decisions. Insure U advances the NAIC's mission of serving and protecting consumers by targeting and educating consumers about a variety of insurance-related issues, utilizing both traditional and social media channels. Insure U provides materials organized by life event, life stage and insurance type. Additional special sections support mini-campaigns with specific targets, such as young singles, established families and disaster preparation.

The NAIC updated Insure U website content—including apps and quizzes—in 2015 redesigned to better reflect current trends and feature additional life-stages.

The NAIC's websites had a record-breaking year, with Insure U garnering more than 330,000 visits while NAIC.org attracted more than 8.8 million visits. NAIC social media ended the year with 11,300 Twitter followers, 5,186 Facebook likes, 3,370 LinkedIn followers and 2,760 LinkedIn group members. Total 2015 outreach generated more than a billion impressions.

Insure U for Small Business

The Insure U for Small Business website was redesigned and relaunched in January to provide small business owners with a variety of resources to help them understand their specific insurance needs and tips for risk protection.

As a former small business owner, NAIC President and Montana Insurance Commissioner Monica J. Lindeen served as the spokesperson for the campaign's launch during a nationally broadcast radio media tour. The campaign also leveraged LinkedIn promotion to raise awareness of these resources where small business owners connect in social media.

The campaign drew more than 213 billion impressions, netting an estimated \$750,000 in equivalent ad value. Traffic on the Insure U website increased in the months after the launch with page views nearly doubling in the following three months.

Award-Winning Amy Grant Campaign Wraps Up

Since 2012, the NAIC has teamed with Grammy® award-winning singer/songwriter Amy Grant to educate consumers about the importance of preparing for complex family and financial decisions. This three-year campaign specifically targeted the “sandwich generation” — baby boomers who have children at home and are also caring for aging parents. Amy's campaign focused on her personal story of helping her mother at the end stage of life, while emphasizing the importance of planning ahead for the unexpected. Grant's television and radio public service announcements (PSAs) produced impressive results: 192 million impressions for 2015; a total of more than 1.2 billion impressions during the campaign's three-year run; and over \$18.5 million in ad equivalency.

Because of these strong outreach results achieved with a celebrity partnership, the NAIC engaged two more entertainers in 2015 to reach specific consumer groups including established families and millennials.

Kimberly Williams-Paisley Shares Her Story

Actress Kimberly Williams-Paisley partnered with the NAIC to share her family's experience with her mother's diagnosis of dementia. She also urged consumers to plan for the unexpected. In a radio PSA, she underscored the need for baby boomers and established families to have a plan. Williams-Paisley's campaign generated 552,186,517 media impressions, translating into an estimated ad value of \$4,827,750. Her story was also featured People Magazine and SPRY Living magazine.

RJ Mitte Connects With Millennials

“Breaking Bad” star RJ Mitte reached out to millennials about his own “Bad Breaks” that taught him firsthand the importance of insurance. He was featured in three NAIC social media videos candidly speaking about his personal experiences with theft, car accidents

and the importance of talking with parents about insurance planning. This unique campaign targeting a hard-to-reach audience generated more than 100 million impressions, including a live Twitter chat with Mitte that promoted talking about insurance. Mitte, who has an impressive social media following, shared personal comments and Insure U content about a variety of important insurance issues.

Jump\$tart

The NAIC boosted our partnership with Jump\$tart. The Jump\$tart Coalition for Personal Financial Literacy is a non-profit organization that is committed to advancing financial literacy among pre-school through college-age youth and working collaboratively toward effective financial education. Pennsylvania Insurance Commissioner Teresa D. Miller presented to educators at the 2015 Jump\$tart National Educator Conference in November in an effort to develop classroom tools for insurance literacy via Insure U.

Professional Recognition

NAIC's education outreach is not only resonating with consumers, but also with public relations and communications associations. In 2015, the work of the Communications Division was recognized by the International Association of Business Communicators (IABC) with Awards of Merit for the "Life's a Journey" public service announcement with Amy Grant and the Protecting the Future Campaign. The Greater Kansas City Public Relations Society of America also recognized the superior work of Communications Division at its PRISM Awards Gala. NAIC Communications took home awards for seven entries, including five gold and two silver awards. Gold PRISMs were awarded to the 2014 Annual Report, Get Ready New Car, Teen Driving, Small Business and Protecting the Future. Silver PRISMs were awarded to Get Ready Job Change and Get Ready Turning 50.



HEALTH, FEDERAL & INTERNATIONAL POLICY

Government Relations

The U.S. system of state-based insurance regulation is effective in providing consumer protection and market stability. This is accomplished through the commitment of state insurance departments and the collective efforts of the NAIC. As the political climate and insurance markets evolve, insurance regulation continues to innovate to best serve the public.

Federal Engagement

State regulators engage federal agencies on a number of financial policy issues including working with the Federal Reserve on proposed capital standards for insurers that fall under their jurisdiction. In addition, NAIC Past President and North Dakota Insurance Commissioner Adam Hamm serves as the designated state insurance commissioner on the Financial Stability Oversight Council. This position represents the interests of the nation's state insurance regulators, providing critical insurance regulatory expertise.

Working with Congress

Through the NAIC, state regulators work closely with Congress, both informally and during Congressional hearings. Missouri Insurance Director John M. Huff testified before Congress in September on the impact of domestic regulatory standards on the U.S. insurance market. Topics discussed included the potential for a covered agreement with Europe, insurance capital standards for systemically important insurance companies, coordination of state and federal regulators and the impact of Dodd-Frank on insurance regulation.

Legislation

A legislative priority for the NAIC was the Policyholder Protection Act, which passed in December. The NAIC had long supported the bill as it clarifies state insurance regulators' authority to wall off insurance company assets within savings and loan holding companies in order to protect insurance consumers. This bill

maintains essential consumer protections that state insurance regulators provide by protecting insurance assets for their intended purpose, to pay claims.

2015 began with two legislative victories for the NAIC. In January, Congress passed legislation to reauthorize the Terrorism Risk Insurance Act (TRIA), extending the program through the end of 2020. This program provides a federal backstop to insurers in the event of a catastrophic terrorist attack. TRIA is a critical program that ensures a stable insurance marketplace for terrorism insurance.

Congress also passed legislation in January to create the National Association of Registered Agents and Brokers (or NARAB II). NARAB II is designed to streamline the non-resident licensing process for insurance agents and brokers while preserving state regulatory authorities that protect consumers. The President is in the process of appointing NARAB II board members, which will include eight state insurance commissioners.

Health Policy

2015 marked the 5-year anniversary of the passage of the Affordable Care Act. State regulators continue to coordinate through the NAIC to navigate health insurance reforms and regulatory challenges. The NAIC continues to coordinate with federal agencies on health reform rule-making activities.

Federal Engagement

Health and Human Services Secretary Sylvia Mathews Burwell met with NAIC members during the 2015 Fall National Meeting. Burwell discussed issues regarding health reform implementation and took questions from the members.

In September, NAIC President and Montana Insurance Commissioner Monica J. Lindeen testified before Congress in support of the Protecting Affordable Coverage for Employees Act (PACE). The NAIC endorsed the PACE Act because it would retain state flexibility to set the appropriate limits for the small group health

insurance market and ensure stable small group markets that reflect the unique characteristics and dynamics at play in each state. The bill passed in early October.

Health Reform

The NAIC's work on implementation of health reform continues. Last year the NAIC made revisions to the Managed Care Plan Network Adequacy Model. As Commissioner Lindeen testified in 2014, state insurance regulators must have the flexibility to regulate provider networks based on appropriate considerations such as geographic access and impact on premiums. The revisions are designed to make sure consumers can access clear information on which providers are in the network of each plan.

In 2015, some health insurance cooperatives (co-ops) struggled as new entrants into the health insurance marketplace as they competed against well-established companies. Julie Mix McPeak, Tennessee Insurance Commissioner, and Jim Donelon, Louisiana Insurance Commissioner, testified before Congress in November regarding the status of co-ops in their states.

International Policy

As the business of insurance becomes globally interconnected, the NAIC's commitment to international engagement deepens. Insurance regulators collaborate regionally and bilaterally with foreign counterparts and through international standard-setting bodies.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is a component of the NAIC's interaction with foreign regulators. Through the IAIS regulators coordinate with colleagues on global standards and best practices, always with a focus on protecting U.S. insurance consumers and companies.

International Forum

The NAIC hosted the annual International Forum in May. Nearly 300 attendees from around the world traveled to Washington, D.C. to attend the forum. Speakers and panels covered cybersecurity, crisis prevention and CEO perspectives on international insurance standards. Bilateral and Regional Dialogues

Members of the NAIC met with counterparts from the Financial Services Agency of Japan for the third NAIC-FSA Insurance Regulatory Dialogue. Topics discussed at the May forum included international group supervision and the development of global capital standards.

The NAIC hosted the Second Annual Asia-Pacific Forum in October. The forum provided participants the opportunity to discuss important issues facing the region, exchange best practices and continue to build relationships amongst insurance supervisors.

In November, the NAIC hosted a public meeting of the EU-U.S. Dialogue Project. The third of its kind, the event provided the public with a status report of the dialogue project and future work plans. More than 200 people attended the event.

International Fellows

The NAIC hosted two classes of international fellows from insurance regulatory agencies around the world in 2015. Since the program began in 2006, more than 230 participants from 31 countries have participated in the technical training. The NAIC has had 37 U.S. jurisdictions participate in the training program by hosting fellows.

Congressional Engagement

Congress has become more interested in how international developments impact U.S. insurance consumers and companies. In April, Florida Insurance Commissioner Kevin McCarty testified before Congress on behalf of the NAIC regarding the state of the insurance industry. His remarks focused on domestic and global capital rules for insurers. The testimony outlined how U.S. regulators are working internationally to strengthen open and competitive insurance markets globally, while protecting U.S. interests.

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IN THE DIGITAL AGE

2015

NATIONAL ASSOCIATION *of*
INSURANCE COMMISSIONERS
ANNUAL REPORT



FINANCIAL STATEMENTS

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National Association of Insurance Commissioners

Financial Report
December 31, 2015

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Independent Auditor's Report

Honorable Members
National Association of Insurance Commissioners
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association of Insurance Commissioners (the NAIC), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Association of Insurance Commissioners as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 3, 2016

National Association of Insurance Commissioners

**Statements of Financial Position
December 31, 2015 and 2014**

Assets	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 8,353,628	\$ 11,272,380
Accounts receivable, less allowance for doubtful accounts of 2015—\$3,308,171 and 2014—\$3,591,979	10,048,092	11,172,746
Interest receivable	81,015	93,142
Incentive receivable (Note 4)	189,635	178,901
Prepaid expenses	3,076,917	2,752,930
Inventories	83,862	88,106
Investments (Note 2)	98,629,348	106,249,243
Total current assets	120,462,497	131,807,448
Operating Note Receivable (Note 6)	3,155,950	3,085,798
Incentive Receivable (Note 4)	1,402,127	1,591,761
Property and Equipment, net (Note 3)	27,591,550	22,950,322
Total assets	\$ 152,612,124	\$ 159,435,329
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,482,717	\$ 2,448,230
Accrued expenses and other current liabilities	13,948,242	15,730,132
Deferred revenue	6,300,587	5,773,178
Total current liabilities	21,731,546	23,951,540
Deferred lease incentive (Note 4)	11,373,018	12,061,424
Deferred pension liability (Note 5)	5,134,063	3,678,439
Total liabilities	38,238,627	39,691,403
Unrestricted Net Assets:		
Allocated	112,730,294	117,975,626
Unallocated	1,643,203	1,768,300
Total unrestricted net assets	114,373,497	119,743,926
Total liabilities and net assets	\$ 152,612,124	\$ 159,435,329

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Activities

Years Ended December 31, 2015 and 2014

	2015	2014
Revenues:		
Database fees	\$ 26,344,370	\$ 26,901,198
Publications and insurance data products	14,549,758	15,222,095
Valuation services	26,625,927	26,278,981
Transaction filing fees	9,058,068	9,324,348
Administrative services/license fees	12,984,007	11,741,770
Member assessments	2,193,791	2,344,464
Education and training	683,603	883,814
National meeting registration fees	2,095,850	1,938,775
Other	49,820	92,653
Total revenues	94,585,194	94,728,098
Expenses:		
Salaries	45,482,446	41,749,857
Temporary personnel	443,379	422,682
Employee benefits	11,956,752	11,426,222
Professional fees	15,148,778	16,430,154
Travel	4,454,152	4,603,242
Rental and maintenance	6,627,264	6,648,747
Depreciation and amortization	3,870,014	4,071,997
Insurance	510,496	517,297
Office services	2,058,153	2,055,932
Printing expense	127,772	186,788
Meetings	2,293,529	2,155,997
Education and training	1,732,619	1,626,842
Bad debt expense	286,590	362,921
Other	851,223	492,139
Total expenses	95,843,167	92,750,817
Changes in net assets before investment income (loss) and pension adjustment	(1,257,973)	1,977,281
Investment income (loss) (Note 2)	(2,400,640)	6,013,553
Changes in net assets before pension adjustment	(3,658,613)	7,990,834
Pension adjustment	(1,711,816)	(3,592,803)
Changes in net assets	(5,370,429)	4,398,031
Net assets, beginning of year	119,743,926	115,345,895
Net assets, end of year	<u>\$ 114,373,497</u>	<u>\$ 119,743,926</u>

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Changes in net assets	\$ (5,370,429)	\$ 4,398,031
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Interest income included in operating note receivable	(70,152)	(68,592)
Depreciation and amortization	3,870,014	4,071,997
Net realized and unrealized losses (gains) on investments	5,357,100	(2,931,101)
(Gain) loss on sale of property and equipment	(880)	2,508
Changes in operating assets and liabilities:		
Accounts receivable, net	1,124,654	454,087
Incentive receivable	178,900	168,774
Interest receivable	12,127	25,332
Prepaid expenses	(323,987)	40,489
Inventories	4,244	41,046
Accounts payable	(1,215,492)	808,255
Accrued expenses and other current liabilities	(2,045,884)	461,692
Deferred revenue	527,409	(654,200)
Deferred lease incentive	(688,406)	171,728
Deferred pension liability	1,455,624	2,248,604
Net cash provided by operating activities	2,814,842	9,238,650
Cash Flows From Investing Activities:		
Purchase of property and equipment	(7,999,165)	(9,245,626)
Proceeds from disposition of property and equipment	2,776	5,466
Purchase of investments	(27,694,173)	(35,396,698)
Proceeds from disposition of investments	29,956,968	36,593,207
Net cash (used in) investing activities	(5,733,594)	(8,043,651)
Net increase (decrease) in cash and cash equivalents	(2,918,752)	1,194,999
Cash and Cash Equivalents:		
Beginning of year	11,272,380	10,077,381
End of year	<u>\$ 8,353,628</u>	<u>\$ 11,272,380</u>
Supplementary Disclosure of Investing Activities:		
Property and equipment in accounts payable	<u>\$ 249,979</u>	<u>\$ -</u>
Property and equipment in accrued expenses	<u>\$ 263,994</u>	<u>\$ -</u>

See Notes to Financial Statements.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The National Association of Insurance Commissioners (the NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Cash and cash equivalents: The NAIC considers all liquid investments with original maturities of one year or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted of money market funds and discount notes. The NAIC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amounts billed to customers. The NAIC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory pricing: Inventories are stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or market.

Investments: The NAIC carries its investments in marketable securities with readily determinable fair values, and all investments in debt securities, at their fair values determined by reference to public exchanges. The NAIC reports the fair value of alternative investments using the practical expedient. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of the NAIC's financial instruments at December 31, 2015 and 2014:

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Investment securities, except alternative investments: The fair values of fixed income, and domestic and international equity investments are based on quoted market prices at the reporting date for those or similar investments. A portion of the fixed income investments are valued based on quoted prices for similar instruments in active markets.

Alternative investments: NAIC reports the fair value of market alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by NAIC based on various factors.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The NAIC accounts for its investments at fair value. In accordance with the guidance, the NAIC has categorized its investments, based on the priority of the inputs to the valuation technique which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker trade transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Investments and concentrations of credit risk: Financial instruments that potentially subject the NAIC to significant concentrations of credit risk consist principally of cash and investments. The NAIC maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and believes the NAIC's risk is negligible.

Alternative investments are redeemable with the fund at net asset value under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the NAIC's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that, if the NAIC were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The cost of internally developed software is expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized until such time as the product is available for general release to customers. The development costs of enhancements that extend the life or improve the marketability of the original product are capitalized. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technologies. The cost of capitalized software is amortized on the straight-line method over the products' estimated useful lives.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

	Estimated Useful Lives
Furniture and equipment	5–13 years
Computer and related equipment	3 years
Computer software	3–10 years
Leasehold improvements	10–13 years

Uses 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.

Basis of accounting for revenues: Revenue is recognized as follows:

- Database fee revenue is recognized upon the filing of insurance companies' annual statements.
- Publications and insurance data products revenue is recognized when the product is shipped to the customer.
- Valuation services and transaction filing fee revenue is recognized when the service or filing has been performed.
- License fees consist of revenue earned from a related party for the use of the NAIC's producer data. Administrative services consist of revenues earned from related parties for administrative services and the use of the NAIC's facilities and equipment. Revenue from administrative services/license fees is recognized as revenue when the services are performed and when the use of the NAIC's assets occurs, in accordance with the terms contained in written agreements in effect with related parties.
- Revenue from fees for member assessments apply to an assessment fiscal year ended April 30, and are recorded in the calendar year assessed as receivables and deferred revenue. At December 31 of each year, 1/3 of the assessments are accounted for as deferred revenue.

Income taxes: The NAIC has been granted exemption from income taxes by the Internal Revenue Service under the provisions of Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the NAIC is subject to federal income tax on any unrelated business taxable income.

Uncertain tax positions, if any, are recorded in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 740, Income Taxes. FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2015 or 2014.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net assets: The NAIC operating reserve is based on a liquid reserve, defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. On July 7, 2015, following a comprehensive review by an outside consultant to reflect the NAIC's current operating environment, the NAIC adopted a target liquid reserve range of 83.4 percent to 108.2 percent. Net assets are allocated by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee as a function of the budgeting process. As of December 31, 2015 and 2014, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5 percent of the next year's projected net assets. The unallocated balance will be used to fund priority initiatives that may arise in the next year.

Pension plan: The Compensation-Retirement Benefits topic of the *FASB ASC* requires employers to recognize on their statements of financial position a liability and/or an asset equal to the under-funded or over-funded status of their defined benefit pension and other postretirement benefit plans. The funded status that the NAIC has reported on the statements of financial position under the topic is measured as the difference between the fair value of plan assets and the benefit obligation.

Functional expenses: The Not-for-Profit Entities topic of the *FASB ASC* requires not-for-profit organizations to disclose expenses by functional classification. The NAIC presents expenses only by their natural classification in the December 31, 2015 and 2014 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.

Recent accounting pronouncements: Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)—This ASU removed the requirement to categorize within the fair value hierarchy investments for which fair values are measured at Net Asset Value (NAV) using the practical expedient. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice in how investments measured at NAV (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. For all non-public entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Early application is permitted. NAIC has elected early adoption of this ASU for the years ended December 31, 2015 and 2014.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 2. Investments and Investment Income

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Government bonds	\$ 5,234,975	\$ 5,169,717	\$ 4,147,776	\$ 4,136,764
Treasury inflation protected bonds	-	-	2,469,404	2,500,130
Corporate bonds	8,328,714	8,173,239	9,091,021	8,956,029
Fixed income mutual funds	19,531,597	19,153,221	19,086,298	19,247,663
Foreign fixed income funds	6,283,519	5,336,888	6,100,671	5,541,670
International bonds	-	-	491,957	477,944
Common stock:				
Industrials	2,032,537	2,881,104	1,465,686	2,778,037
Consumer discretionary	2,407,056	4,365,657	1,583,440	4,309,391
Financials	2,108,316	2,715,243	2,974,159	4,116,975
Information technology	5,757,677	8,763,857	5,602,651	8,485,419
Other Industries	18,918,559	23,629,892	12,615,023	22,426,192
Foreign common stock	611,113	1,224,705	928,312	1,783,968
American depository receipts	99,335	402,901	811,468	1,184,626
Foreign equity mutual funds	6,043,980	6,706,731	6,255,488	7,299,639
Master limited partnerships	4,531,283	2,976,310	4,561,551	5,991,355
Alternative equity funds	6,065,000	7,129,883	6,065,000	7,013,441
	\$ 87,953,662	\$ 98,629,348	\$ 84,249,905	\$ 106,249,243

Total investment income comprises the following:

	2015	2014
Interest and dividend income	\$ 2,956,460	\$ 3,082,452
Net realized gains	2,966,551	2,826,700
Net unrealized gains (losses)	(8,323,651)	104,401
	\$ (2,400,640)	\$ 6,013,553

National Association of Insurance Commissioners

Notes to Financial Statements

Note 2. Investments and Investment Income (Continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

December 31, 2015	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 5,169,717	\$ -	\$ 5,169,717	\$ -
Corporate bonds	8,173,239	-	8,173,239	-
Fixed income mutual funds	19,153,221	19,153,221	-	-
Foreign fixed income funds	5,336,888	5,336,888	-	-
Common stock				
Industrials	2,881,104	2,881,104	-	-
Consumer discretionary	4,365,657	4,365,657	-	-
Financials	2,715,243	2,715,243	-	-
Information technology	8,763,857	8,763,857	-	-
Other Industries	23,629,892	23,629,892	-	-
Foreign common stock	1,224,705	1,224,705	-	-
American depository receipts	402,901	402,901	-	-
Foreign equity mutual funds	6,706,731	6,706,731	-	-
Master limited partnerships	2,976,310	2,976,310	-	-
	91,499,465	\$ 78,156,509	\$ 13,342,956	\$ -

**Investments measured at net asset
value:**

Alternative equity hedge funds	7,129,883
Total Investments	\$ 98,629,348

National Association of Insurance Commissioners

Notes to Financial Statements

Note 2. Investments and Investment Income (Continued)

December 31, 2014	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 4,136,764	\$ -	\$ 4,136,764	\$ -
Treasury inflation protected bonds	2,500,130	-	2,500,130	-
Corporate bonds	8,956,029	-	8,956,029	-
Fixed income mutual funds	19,247,663	19,247,663	-	-
Foreign fixed income funds	5,541,670	5,541,670	-	-
International bonds	477,944	-	477,944	-
Common stock				
Industrials	2,778,037	2,778,037	-	-
Consumer discretionary	4,309,391	4,309,391	-	-
Financials	4,116,975	4,116,975	-	-
Information technology	8,485,419	8,485,419	-	-
Other Industries	22,426,192	22,426,192	-	-
Foreign common stock	1,783,968	1,783,968	-	-
American depository receipts	1,184,626	1,184,626	-	-
Foreign equity mutual funds	7,299,639	7,299,639	-	-
Master limited partnerships	5,991,355	5,991,355	-	-
	<u>99,235,802</u>	<u>\$ 83,164,935</u>	<u>\$ 16,070,867</u>	<u>\$ -</u>
Investments measured at net asset value:				
Alternative equity hedge funds	<u>7,013,441</u>			
Total Investments	<u>\$ 106,249,243</u>			

	Alternative Equity Funds	
	2015	2014
Total gains, net, included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	<u>\$ 116,442</u>	<u>\$ 278,000</u>

National Association of Insurance Commissioners

Notes to Financial Statements

Note 2. Investments and Investment Income (Continued)

The following tables set forth additional disclosure of the NAIC's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of December 31, 2015 and 2014:

Investment	Fair Value December 31, 2015	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative equity funds (A)	<u>\$ 7,129,883</u>	<u>\$ -</u>	Quarterly	95 days
Investment	Fair Value December 31, 2014	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative equity funds (A)	<u>\$ 7,013,441</u>	<u>\$ -</u>	Quarterly	95 days

(A) This fund aims to generate consistent absolute returns by investing in assets with a diversified group of investment managers through managed account structures (Managed Account Structures) or in the private investment funds sponsored by investment managers (collectively, Hedge Fund Managers or Hedge Funds).

Note 3. Property and Equipment

Property and equipment at December 31 consisted of the following:

	2015	2014
Furniture and equipment	\$ 5,971,484	\$ 5,386,147
Computer and related equipment	15,382,275	14,827,147
Computer software	32,254,237	26,686,801
Leasehold improvements	17,781,277	17,003,337
	<u>71,389,273</u>	<u>63,903,432</u>
Less accumulated depreciation and amortization	43,797,723	40,953,110
	<u>\$ 27,591,550</u>	<u>\$ 22,950,322</u>

Note 4. Operating Leases

The NAIC leases its office space in Kansas City, New York, and Washington D.C. under noncancellable operating leases. Certain parts of the agreements contain escalation clauses providing increased rentals based on maintenance, utility and tax increases. The NAIC also leases certain office equipment under noncancellable operating leases, which expire at various dates through 2016. The accompanying financial statements reflect rent expense on the straight-line method over the terms of the leases. Total rental expenses under all leases for the years ended December 31, 2015 and 2014 were \$2,503,132 and \$2,677,398, respectively.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 4. Operating Leases (Continued)

The Kansas City office space lease includes various lease incentives, free rent and scheduled rent increases. The lessor agreed to pay the NAIC base rental differential payments totaling \$2,390,571 plus 6 percent interest over the course of the initial lease term. Annual payments of \$285,140 are being made to the NAIC through fiscal year 2022. The outstanding noncurrent principal balance of this receivable is reported as an Incentive Receivable on the statement of financial position and had a balance of \$1,402,127 and \$1,591,761 as of December 31, 2015 and 2014, respectively. This outstanding receivable is being recognized in the statement of activities on a straight-line basis over the life of the lease and is included in the deferred lease incentive described below.

Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. generally accepted accounting principles require that the above items be recognized as a reduction of rental expense over the term of the lease. The unamortized balance in deferred lease incentive was \$11,373,018 and \$12,061,424 as of December 31, 2015 and 2014, respectively.

Future minimum lease payments at December 31, 2015 are as follows:

Year Ending December 31,

2016	\$ 3,675,434
2017	3,644,471
2018	3,663,377
2019	3,682,755
2020	3,702,618
Thereafter	13,890,234
Total future minimum lease payments	<u>\$ 32,258,889</u>

Note 5. Employee Retirement Plans

The NAIC has a noncontributory defined benefit plan covering all employees with a hire date prior to January 1, 2000. As of December 31, 2012, accrued benefits for all active participants were frozen. The benefits are based on years of service and the employee's compensation prior to January 1, 2013.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 5. Employee Retirement Plans (Continued)

The following table sets forth the plan's funding status, amount recognized in the NAIC's financial statements, and other required disclosures.

	2015	2014
Projected benefit obligation	\$ (46,176,278)	\$ (47,845,291)
Fair value of plan assets	41,042,215	44,166,852
Funded status of plan	<u>\$ (5,134,063)</u>	<u>\$ (3,678,439)</u>
Accrued benefit cost recognized in the statement of financial position	<u>\$ (5,134,063)</u>	<u>\$ (3,678,439)</u>
Accumulated benefit obligation	<u>\$ 46,176,278</u>	<u>\$ 47,845,291</u>
Employer contributions	<u>\$ -</u>	<u>\$ 1,429,835</u>
Plan settlements	<u>\$ -</u>	<u>\$ (3,014,335)</u>
Benefits paid	<u>\$ (2,089,846)</u>	<u>\$ (494,807)</u>
Interest cost	\$ 1,729,456	\$ 1,933,318
Return on plan assets	(2,716,600)	(2,804,090)
Amortization of net loss	730,952	956,408
Net pension (benefit) cost	<u>\$ (256,192)</u>	<u>\$ 85,636</u>

Weighted average assumptions used to determine benefit obligations are as follows:

	2015	2014
Discount rate	4.25%	3.80%
Salary rate	N/A	N/A
Measurement date	December 31, 2015	December 31, 2014

Weighted average assumptions used to determine net pension costs are as follows:

	2015	2014
Discount rate	3.80%	4.65%
Salary rate	N/A	N/A
Expected return on plan assets	6.50%	6.75%
Measurement date	December 31, 2015	December 31, 2014

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 5. Employee Retirement Plans (Continued)

The following is the plan's weighted average asset allocation by asset category as of December 31, 2015 and 2014 (the measurement date of the plan assets):

	2015	2014
Equity securities	48.46%	51.22%
Debt securities	51.54%	48.78%

Plan assets are held by an insurance company, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds, U.S. Government securities and other specified investments, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced as necessary based upon the minimum and maximum restrictions set forth in the Plan's investment policy statement. Plan assets are valued using Level 1 inputs and are based on unadjusted quoted market prices within active markets.

The benefits expected to be paid to participants over the next 10 years, as of December 31, 2015 are as follows:

Year Ending December 31,

2016	2,699,573
2017	3,005,057
2018	3,446,773
2019	3,702,825
2020	3,799,412
2021-2025	17,216,472
Total	<u><u>\$ 33,870,112</u></u>

The annual amount is actuarially calculated by the NAIC's independent consultant firm and represents the amount necessary to fully fund the actuarial accrued liability and normal cost of the plan.

The NAIC provides a defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 4.5 percent of compensation of employees who contributed to Plan B and contributed 3 percent of all employees' compensation in 2015 and 2014. The pension expense related to Plan B for the years ended December 31, 2015 and 2014, was \$2,567,998 and \$2,475,547, respectively.

National Association of Insurance Commissioners

Notes to Financial Statements

Note 6. Related Party Transactions

NAIC and the National Insurance Producer Registry (NIPR) executed a Licenses and Services Agreement (the Agreement) effective January 1, 2012, for an initial term of five years. The agreement will automatically renew each year thereafter unless either party provides written notice of termination to the other party no later than 180 days prior to the end of the renewal period. The terms of the agreement provide for (1) a 38 percent license fee for NIPR to use the NAIC's producer data; (2) the reimbursement of the actual cost of services, facilities and equipment provided by NAIC to NIPR; and (3) the reimbursement of system usage fees related to ongoing infrastructure costs for NIPR.

The total amount of revenue recognized during the year and amount owed at year-end from the NIPR are as follows:

	2015	2014
Administrative services provided by NAIC	<u>\$ 1,164,013</u>	<u>\$ 1,182,812</u>
License fee	<u>\$ 11,503,594</u>	<u>\$ 10,205,523</u>
System usage fee	<u>\$ 191,400</u>	<u>\$ 228,435</u>
Amounts payable to NAIC	<u>\$ 1,237,197</u>	<u>\$ 1,028,578</u>

Effective June 2007, the NAIC entered into a service agreement with the Interstate Insurance Product Regulation Commission (the IIPRC), whereby the NAIC provides certain administrative services to the IIPRC. The NAIC received an administrative fee of \$125,000 for both of the years ended December 31, 2015 and 2014. The IIPRC also pays an annual license and maintenance fee in the amount of \$25,000 for the use of the NAIC's System for Electronic Rate and Form Filing. The NAIC also has an operating note receivable due from the IIPRC. Repayment of principal and interest is deferred until certain operating performance measures are met by the IIPRC. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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Notes to Financial Statements

Note 6. Related Party Transactions (Continued)

The total amount of revenue recognized during the year and amounts owed at year-end from the IIPRC are as follows:

	2015	2014
Administrative services provided by NAIC	\$ 125,000	\$ 125,000
License fee paid to NAIC	\$ 25,000	\$ 25,000
Amounts payable to NAIC	\$ 25,808	\$ 24,725
Note payable to NAIC	\$ 3,155,950	\$ 3,085,798

An additional line of credit in the amount of at least \$250,000 to be used by the IIPRC in fiscal year 2016 will be considered by the NAIC at the NAIC 2016 Spring National Meeting.

Note 7. Contingencies

The NAIC is, from time to time, subject to claims and lawsuits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not currently believe the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations or cash flows of the NAIC.

Note 8. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2015 through March 3, 2016, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.