



States, Strength & Speed Aligned

TO: IIPRC MANAGEMENT COMMITTEE
FROM: IIPRC FINANCE COMMITTEE
DATE: SEPTEMBER 17, 2012
SUBJECT: **ANALYSIS OF IIPRC FEE STRUCTURE**

One of the pressing issues for 2012 has been to address the long-term fee structure of the IIPRC. The challenge for the IIPRC is that the initial fee structure does not support its current or long-term operational cost structure and needs. After extensive analysis that has been conducted by the IIPRC Office on behalf of the Finance Committee, the Finance Committee has four recommendations to make to the Management Committee in advance of the adoption of the 2013 Annual Budget. This memo provides analysis for the purpose of restructuring the IIPRC's self-generated fee structure.

Recommendations to the Schedule of Fees for 2013

Annual Registration Fee

In September 2007, the IIPRC adopted a rule for the Terms and Procedures for IIPRC Filing Fees (Filing Fee Rule) that provided for two types of fees -- a registration fee and a per filing fee.

Companies making product filings through the IIPRC are required to pay an annual registration fee in the amount of \$5,000. The annual registration fee is prorated to \$2,500 on and after July 1 of each year. In 2009, the IIPRC amended the Filing Fee Rule to provide a lower cost structure for regional filers, currently defined as companies filing in 12 or less Compacting States. The regional annual registration fee is \$2,500 and is prorated on and after July 1 of each year to \$1,250. Effective January 1, 2012, the IIPRC implemented an Update-Only Registration Fee in the amount of \$1,500 which allowed companies to update previously-approved Compact filings for mix and match and adding new states (substantive amendments to previously-approved filings require a full registration).

Currently, as of the end of August, the IIPRC has received 150 company registrations. Of these, 132 have registered at the full \$5,000 rate; six have registered at the full-Regional filer rate; four are Update-Only registrations; and there have been 14 registrations submitted after July 1 at \$2,500.

The first recommendation the Finance Committee is making is to clarify the definition of regional filers as companies who are licensed to do business in 12 or less Compacting States rather than companies who are filing in 12 or less Compacting States. The regional filer is aimed at smaller companies though companies doing business in all states

have sought to register as a regional filer on the basis that the company only plans to file through the Compact for 12 or less Compacting States.

The second recommendation being made by the Finance Committee is that the annual registration fee be based on the asset-based premium volume based on the Schedule T-Part 2 of the Annual Statement filed with the NAIC for the reporting year prior to the current annual registration period. Companies whose asset-based premium volume is greater than \$50 million would pay a registration fee of \$5,000 from January 1 until June 30; on July 1 the fee would be prorated to \$2,500. Companies with less than \$50 million in asset-based premium volume would pay \$2,500 in order to register between January 1 and June 30th; the fee would be prorated in half on July 1. Regional filers would pay 50% of the applicable fee based on their asset-based premium volume. The Update-Only registration fee would still remain in place at the current rate for companies whose asset-based premium volume is greater than \$50 million and those with less than \$50 million in asset-based premium volume would pay \$750. The IIPRC Office conducted some analysis using the data provided from the NAIC's Financial Data Repository and 60% of the reporting companies have an asset-based premium volume less than \$50 million. Of the currently registered companies, 14% have an asset-based premium volume less than \$50 million. Based on this analysis, the Finance Committee believes that the change in the fee structure would encourage more companies to utilize the benefits of the Insurance Compact's filing platform.

Product Filing Fee

Companies also pay a transactional fee when making a filing that was originally set in the Filing Fee Rule in 2007 at \$500 per filing. The 2009 amendments to the Filing Fee Rule set a regional company filing fee of \$250 per filing. In 2010, the Filing Fee Rule was amended to remove the specific fee amounts from the language of the Rule and to authorize a Schedule of Fees that would be approved each year by the IIPRC in conjunction with adoption of the annual budget. The Filing Fee Rule requires the IIPRC to publish a proposed schedule of fees by September 1 of each year. The third recommendation of the Finance Committee is to remove a specific date in the Filing Fee Rule such as September 1 and rather have the schedule of fees exposed simultaneously with the annual budget which are both subject to notice and comment before consideration by the Management Committee or Commission

The Schedule of Fees provided for the following per-filing fees across the adopted product lines:

	National Filer	Regional Filer
Individual Life Product Filings	\$ 500	\$ 250
Individual Annuity Product Filings	\$ 500	\$ 250
Individual Long Term Care Filings		
Policy Packet	\$ 1,000	
Policy form outside of packet submission	\$ 250	
Forms Permitted for Self-Certification	\$ 50	
Advertising, each submission	\$ 250	
Annual Certification of Rates	\$ 50	

Revision of Rates (per revision)	\$ 500	
Individual Disability Income Filings		
Policy Packet	\$1,000	
Policy form outside packet submission	\$500	
Amendments to Product Filing Submissions	\$ 250	

The fourth recommendation of the Finance Committee is to amend the current schedule of fees. The IIPRC currently has consultants who serve as the three lead reviewers – David Morris for life, Karen Givens for annuities, and Maureen Perry for long-term care and disability income products – as well as a Development/Product Operations Coordinator, and two actuarial consultants – one full-time and one part-time. Approximately two-thirds of all filing submissions have required an actuarial review in addition to the review of the primary reviewer. To reflect the higher costs associated with having an actuarial review, the Finance Committee is recommending that the Schedule of Fees be amended as follows:

	Companies with More than \$50,000,000 Asset-Based Premium Volume	Companies with Less than \$50,000,000 Asset-Based Premium Volume
Product Filing Submissions <u>Requiring</u> Actuarial Review	\$ 1,000	\$ 500
Product Filing Submissions <u>Without</u> Actuarial Review	\$ 500	\$ 250
Regional Filer	50% of applicable filing fee	
Other Filing Fees		
Forms Permitted for Self-Certification	\$ 50	
Annual Certification of Rates	\$ 50	
Amendments to Product Filing Submissions	50% of original IIPRC Filing Fee to reopen and amend as defined in our Filing Fee Rule	

Actuarial review would be applicable when one or more of the Uniform Standards applicable to the product filing submission expressly contains actuarial submission requirements.

We look forward to discussing these recommendations with you as well as any other suggestions you may have regarding the Compact's operations and key considerations for 2012.