



TO: Members of the Management Committee and Commission
FROM: Finance Committee
DATE: October 24, 2024
SUBJECT: 2025 Annual Budget Recommendation

The Finance Committee respectfully presents its 2025 Annual Budget recommendation with two special requests. The first request is to update the methodology for the collection of Compact Per Filing Fees to better align the value of review with the cost to review. The second request is to create a new position for Director of Regulatory Services to provide enhanced services to members and states.

REVENUE ALIGNMENT PROPOSAL

Through July 2024, the Compact's revenue is 15% or \$425,000 under budgeted revenue. This shortfall is primarily due to the \$380,000 or 30% variance in actual-to-budgeted Per Filing Fee Revenues. The Compact Office has received 250 fewer product submissions than budgeted to date and 206 fewer product submissions than this time last year. However, the total forms submitted (1,716) within fewer product filing submissions this year is closer to the forms received (1,773) within more product filing submissions at this time in 2023.

The purpose of this alignment is to treat filers and their respective submissions more equitably. The Finance Committee proposes keeping in place the current base fee for a Product Filing Submission to cover one Product¹ or one Product Component² and introducing an additional fee for other Product Components in each respective submission.

Today, the Per Filing Fee for a Product Filing Submission is \$1,500 for actuarial review and \$750 for non-actuarial review.³ The fee is graded for companies with less than \$50 million in premium volume and/or regional companies doing business in 12 or less Compacting States. The Per Filing Fee is based on per company and per policy or contract.⁴ Otherwise, the Per Filing Fee is the same whether the Product Filing Submission has one form or multiple forms.

¹ "Product" means a policy or contract, including any application, endorsement, or related form which is attached to and made part of the policy or contract, and any evidence of coverage or certificate.

² "Product Component" is defined as any of the following: a policy form, an application, a rider, an amendment, an endorsement, a form required to be used with an application, an outline of coverage, an advertisement, and a rate schedule.

³ If the Uniform Standard(s) applicable to the Product Filing Submission includes actuarial requirements, an actuarial review is required. Several Uniform Standards do not require actuarial review and only form review such as application Uniform Standards. See [Uniform Standards Without Actuarial Review](#).

⁴ If a Product Filing Submission does not include a policy or contract, the Per Filing Fee is only per company.

Here is an example of two filings that require both form and actuarial review. ABC company's submission includes a whole life policy, application and policy specifications page. XYZ company's submission includes a whole life policy, application, and 5 riders. Today, both companies have the same filing fee of \$1,500 even though it takes longer to review XYZ company's submission because there are more product components.

Here is another example of two filings that require form review only. ABC company's submission includes one application. XYZ company's submission includes one application and 10 application questionnaires. Both companies have the same filing fee of \$750 even though it takes longer to review XYZ company's submission. The Revenue Alignment Proposal is designed to equitably tie the review requirements of a filing to the Per Filing Fee.

The revenue realignment proposal would keep the existing Product Filing Submission Fee and identify it as a Base Fee. The Base Fee would include review of one Product or Product Component, which would be described in the Schedule of Fees. There would be an Additional Fee per additional Product Component in a Product Filing Submission.

Current Fee Structure and Basis

The Compact is revenue neutral to the Compacting States. Compacting States do not fund the Compact and the Compact collects and remits applicable state filing fees for Compact submissions.⁵ The Compact generates its revenue through value-added services to the industry.⁶ Under the Compact Statute, the Compact Commission is required to collect filing fees for the cost of its operations and activities in a total amount sufficient to cover the Commission's annual budget.

The Compact derives revenue from its statutory purpose of providing prompt review of insurance products submitted by insurers and giving appropriate regulatory approval to those product filings satisfying the applicable Uniform Standard(s).

Companies pay an Annual Registration Fee (ARF) for access to the Compact filing platform. Companies are encouraged to pay their ARF by or before January 1 to ensure uninterrupted access. Some companies wait to pay the ARF until they need to make a filing; therefore, the fees in this line item can come in throughout the year. In 2023, 70% of the 296 registered companies submitted their ARF by the end of January. The ARF can comprise 40% to 50% of the Compact's self-generating revenue and helps maintain a consistent cash flow throughout the year.

Companies pay a Per Filing Fee which is transactional based on their specific filing activity. This revenue alignment proposal aims to be even more granular in terms of transactional activity within a Product Filing

⁵ See [Member Fee Schedule](#). Compacting State have different approaches for filing fees including retaliatory, per filing, per form, as well as no filing fee.

⁶ The Compact is a voluntary filing platform where companies choose to file instead of filing state-by-state.

Submission. Today, the Per Filing Fee depends on whether or not one of more components of the submission require an actuarial review (See Footnote 3). There is no restriction on the number of Product Components included in a Product Filing Submission, which limits precision in financial and workload budgeting.

Realignment Proposal

The revenue alignment proposal is a Base Fee for one Product or one Product Component and an Additional Fee for additional Product Components within the Product Filing Submission. Returning to the previous examples using the new approach, ABC company pays \$1,500 as the application, policy, and specifications page would be considered one product. Since XYZ company has 4 additional riders, which each constitutes a separate Product Component, XYZ company pays \$3,500 which is the \$1,500 for the policy, application and one specifications page and \$500 per additional rider. For the other example, ABC company pays \$750 as its Product Filing Submission includes one application and XYZ company pays \$3,250 as it has 10 additional Product Components [$\$750 + (\$250 * 10)$].

Here is the Current Fee Schedule:

| | 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 | \$ 1,500 | \$ 750 |
| Product Filing Submissions Requiring a Rate Review (applies to LTC and DI submissions with rate schedules) | \$ 2,500 | \$ 1,250 |
| Product Filing Submissions <u>Without</u> Actuarial Review | \$ 750 | \$ 375 |
| Regional Filer | 50% of applicable filing fee | |

Here is the Realigned Fee Schedule (please note the headings from the current fee schedule have been rearranged):

| | SUBMISSION REQUIRES ACTUARIAL REVIEW | SUBMISSION DOES NOT REQUIRE ACTUARIAL REVIEW |
|---|--|--|
| Individual and Group Life & Annuities Product Filing Submissions (per company, per policy/contract) | \$1,500 Base Fee PLUS \$500 Additional Fee per Product Component | \$750 Base Fee PLUS \$250 Additional Fee per Product Component |
| Individual LTC and Disability Income and Group Disability Income Product Filing Submissions (per company, per policy) | \$2,500 PLUS \$500 Additional Fee per Product | \$1,250 Base Fee PLUS \$250 Additional Fee per Product |

| | Component | Component |
|--|------------------------------------|------------------------------------|
| Filer With Less Than \$50M in Schedule T, Part 2 Premium Volume | 50% of Base Fee and Additional Fee | 50% of Base Fee and Additional Fee |
| Regional Filer (Filer Authorized to Do Business in 12 or Less Compacting States) | 50% of applicable filing fee | |

The Base Fee would cover the basic components of one Product as follows: 1) one policy/contract, one application and one policy/contract specifications page (whether embedded or separate); 2) for LTC/DI, one policy, one rate schedule, one application, and one outline of coverage; 3) for group, one master policy, one policy application, one certificate and one statement of insurability. If a Product Filing Submission does not have a policy or contract, the Base Fee would cover one Product Component. The Additional Fee would be assessed on each additional Product Component in the submission. The Revised Fee Schedule is Attachment 1.

The Compact has other fees within the Per Filing Fee category including, most importantly, Expedited Review Process (ERP) Fee and Advanced Fee Calculation Fee. These fees would remain the same. The AFC fee is an optional fee for the Compact Office to calculate the Compact and state filing fees due on a Product Filing Submission. The ERP Fee is an optional fee for guaranteed service levels. The ERP Fee would be twice the amount of the applicable Base Fee for the Product Filing Submission. Additional Fees would not be included in the calculation of the Expedited Review Fee.

Support for Realignment Proposal

The Compact undertook an independent business assessment of the organization in 2020.⁷ The assessment concluded the Compact’s pricing methodology – charging an annual registration fee to access the Compact Platform and a filing fee for each product filing – has strong support among company filers and is an appropriate approach. They further found company filers recognize the value and efficiencies of using the Compact and are willing to pay to support that value.

During our discussions with Filers, we uniformly heard that Filers are very comfortable with the amount of the IIPRC’s annual registration and product filing fees. We found that once Filers begin to use the IIPRC Platform, they recognize the significant savings in both time and effort gained by using its Platform.

We did not hear any concern from Filers with the current size of the IIPRC’s annual registration or product filing fees, and we got the sense that Filers would be willing to pay more, if needed to support the IIPRC.

⁷ See [Independent Business Assessment Report of Findings and Recommendations by Rector & Associates, Inc.](#)

Accordingly, we recommend that the IIPRC consider increases in its annual registration and product filing fees, to more appropriately reflect the value the IIPRC provides to Filers.⁸

The revenue alignment proposal is more equitable than continuing to raise the base Product Filing Fee of \$1,500 and \$750 because it does not affect all filings.⁹ Rather, the proposal seeks to better align payment for a Product Filing Submission with the size of the submission.

Further, this alignment proposal does not equate to a per form fee. The Compact Office has modeled the transition to a strictly per form fee. This would consistently produce dramatically lower revenue to support its operations.¹⁰ The proposed Base Fee and Additional Fee realignment is not on each form but on the Product or Product Component, which could be comprised of more than one form such as a rider and a separate rider specification page comprising one Product Component.

This proposal seeks to maintain the filing efficiencies for companies while better aligning the value of the Compact Office's efforts to the transaction notwithstanding the company's filing strategy. Today, a company has two options to file for Compact approval of 5 riders that require actuarial review. One option is to make five separate filings and the Compact Per Filing Fee would be \$7,500 (5 filings *\$1,500 each), or the other option is to make one filing with all the riders and supporting material and pay a \$1,500 Compact Per Filing Fee (1 filing * \$1,500). With this new proposal, the Per Filing Fee scales up to better align to the Compact Office's efforts, and the filer is still paying less by making one filing with all five riders as the fee would be \$3,500 [Base Fee of \$1,500 + (4 additional components * \$500 Additional Fee)].

The Compact Office has applied this revenue alignment methodology to the Compact filings that have been submitted since January 1, 2024. By adding the Additional Fee based on additional Product Components, the Compact would have earned an additional \$385,000 on these Product Filing Submissions. By factoring in the Product Components and neutralizing company filers' varied filing strategies, the actual revenue that would have been generated this year covers the current \$380,000 deficit between actual per filing fee revenue of \$899,665 and the budgeted per filing fee revenue of \$1,279,005 through the end of July.

For 2025, the Compact Office projects it would increase its Per Filing Fee Revenue by \$900,000 by charging a Base Filing Fee and Additional Filing Fee for each Product Filing Submission. If we implemented on March 1, 2025, the Per Filing Fee Revenue is projected to increase by \$770,000 and would allow companies to prepare for this change. This additional revenue could be used to retain

⁸Ibid., page 41.

⁹ When applying the proposed methodology to the year-to-date Product Filing Submissions through August, only 47% would have incurred the Additional Filing Fee.

¹⁰ Most filings have three or fewer forms and a per form fee would likely need to be priced at a lower amount such as \$250 per form which in many cases, would be less than the current minimum Product Filing Fee of \$750 for filings that do not require actuarial review.

additional reviewer resources in late 2025 or 2026, including two reviewers and another actuary, to further reduce filing review turnarounds and increase capacity in the expedited review queue.

NEW FULL-TIME EMPLOYEE POSITION

The Finance Committee respectfully recommends the creation of a new full-time employee position to bolster its management of regulatory affairs in the areas of committee support, member state relations, and regulator training and support. This position would be a director-level senior position and would manage a regulatory affairs team.

The Compact has a team of 17 full-time employees and one full-time consultant. In addition to the Executive Director, the Compact Office has senior leadership that oversees the product operations and the administrative operations.

- Eleven of these team members devote between 90% to 100% of their time to ensure the compliance and responsiveness of the product operations which is focused on the application of the Uniform Standards to product filing submissions, and when engaging in pre-filing communications with filers.
- Five members of the Compact team spend 90% to 100% of their time in the administrative operations with a wide range of duties including notices, travel and meeting support, management of rulemaking timelines, website and records management, financial tracking, communications, and many other administrative activities.
- One team member is devoted full-time to the support of the Product Standards Committee and Uniform Standards development.

Today, the Compact Office does not have a dedicated regulatory affairs team. The Compact Office has always taken a team approach to member support ensuring member inquiries are handled expeditiously, outreaching proactively to members on important topics or in advance of key meetings, and supporting the work of all Compact committees.

This structure does not always provide sufficient capacity to meaningfully address all state-specific or member-wide issues as promptly or proactively as desired. Examples include exploring the issue of mix-and-match to implement a cohesive updated approach, updating the five-year review process for Uniform Standards, or providing more flexibility for members to stay a Uniform Standard while exploring issues of statutory conflicts. In addition, the Compact's proposed strategic plan for the coming three years includes member-focused initiatives that require increased staff capacity.

The Director of Regulatory Affairs (“DRA”) would lead a State Regulatory Affairs team¹¹ to ensure the Compact Office provides excellent support and service to insurance regulators (and state legislators, if applicable) across all Compacting States and jurisdictions. The DRA would also work with non-

¹¹ The State Regulatory Affairs team would consist of the DRA and current Compact team members.

Compacting States where the opportunity arises. The DRA would deepen strategic partnerships with state regulators and optimize progress towards the Compact Office's strategic goals and member projects.

The DRA would oversee strategic staff support for the Compact committees, including the Product Standards Committee, Rulemaking Committee, and Adjunct Services Committee. They would work closely with Compacting States' designated representatives to identify and implement programs to address short-term and long-term regulator requests. For example, the DRA would help implement the product training program for state insurance regulators supported by the Adjunct Services Committee. Another key area is to serve as the liaison with NAIC initiatives and committees to keep abreast of activities, such as model law development, which may affect the Uniform Standards and other Compact rules and initiatives. The DRA would oversee key areas of the strategic action plan including new state regulator training program and improvements in the Uniform Standards development process.

This new position adds \$151,255 in expenses for 2025. The creation of the DRA and State Regulatory Affairs team would not directly generate additional revenue for the organization. The Compact is revenue neutral to Compacting States where members do not pay dues and the Compact Office collects and remits state filing fees for Compact filing activity. However, the investment in member-focused engagement and initiatives will continue to strengthen member participation and support. We expect a direct impact to the regulatory efficiencies company filers will experience in terms of more streamlined development of Uniform Standards, collaborative consideration of innovative products and features, and increased awareness by regulators of the Compact framework and product filing activities.

CONCLUSION

For the above reasons, the Finance Committee respectfully recommends consideration by the Management Committee and Commission of the draft 2025 Annual Budget including the Revenue Alignment Proposal and the new position of Director of Regulatory Affairs.