

2014 Annual Report

INTERSTATE INSURANCE
PRODUCT REGULATION COMMISSION



*States, Strength
& Speed Aligned*

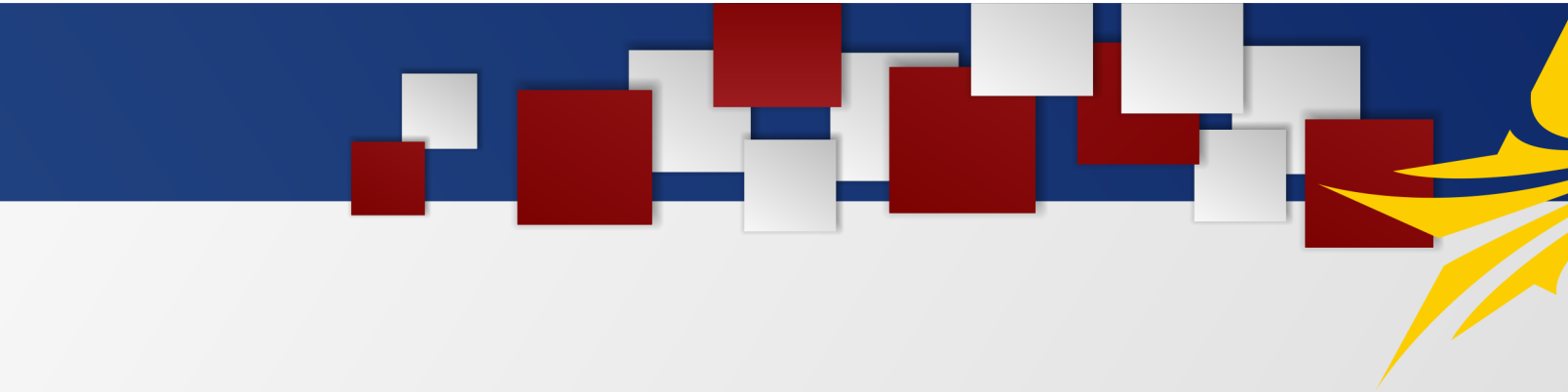




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LETTER FROM THE OFFICERS

In 2014, the Interstate Insurance Product Regulation Commission (IIPRC) marked ten years since the first two states – Colorado and Utah – enacted the Interstate Insurance Product Regulation Compact (Compact) legislation thereby initiating a collaborative and transformative effort among states to build an innovative regulatory product approval process for asset-based insurance products within the state-based system of insurance regulation.

The IIPRC has experienced tremendous progress since 2004 when 9 states initially joined the Compact. In 2014, we welcomed Arizona as the 44th Compacting State, completed our first thorough five-year review of Uniform Standards, commenced the development of new group disability income uniform standards, and continued to provide high-quality, responsive product review on behalf of our Compacting States for an ever-growing number of efficiency-minded insurers.

Our state-centric organization is a model of how states work together through their trusted insurance regulators to develop comprehensive uniform standards that reflect strong consumer protections and best practices. With 44 Compacting States, the IIPRC members now represent over 73% of the nationwide premium volume for products authorized under the Compact including life, annuities, disability income, and long-term care insurance. With more than 90 adopted Uniform Standards, speed-to-market for the nearly 200 insurers that utilized the IIPRC in 2014 means one approval in 60 days or less; but, much more importantly, this means the ability to prepare, submit, implement, and deploy one standard, uniform form across all the Compacting States. Our Compacting States and filing companies have realized efficiencies through reduced duplicative paperwork, processes, and systems while collaborating around detailed, comprehensive, and transparent product standards that provide robust and consistent consumer protections for policyholders in all Compacting States.

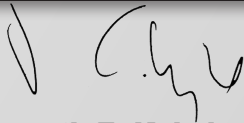
We are committed to working with states that have not yet enacted the Compact legislation. One of these states, Florida, enacted legislation in 2013 with the express intent to become a member of the IIPRC. As an agreement among the Compacting States, it is essential to adopt the legislation without material variances. In August 2014, the IIPRC adopted the report of its Regulatory Counsel Committee agreeing that the Florida legislation contained several material variances and was not an effective acceptance to join the Compact. We commend the Florida legislature for expressing its desire to join and look forward to working with them to hopefully remove the variances allowing them to become a member of the IIPRC.

In 2014, the IIPRC reinforced its commitment to the uniform standards development process with the addition of Anne Marie Narcini, a long-time regulator with the New Jersey Department of Banking and Insurance and former chair of key NAIC working groups, to facilitate this process. The IIPRC was able to wrap up four outstanding phases of the five-year review of Uniform Standards for individual life and annuity product lines by making several needed clarifications. The IIPRC also commenced the development of the group disability income uniform standards which will allow even more insurers to utilize the IIPRC's one-stop filing process.

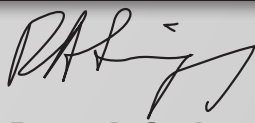
The successes and growth of the IIPRC are attributable to many dedicated regulators, state legislators, consumer and industry representatives, and filers who have provided their time and expertise as well as their willingness to explore and build a transformative product approval process for states, companies, and consumers. We look forward to working with you in the coming year to build upon these successes.



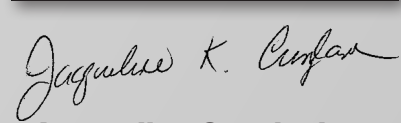
OFFICERS



Kenneth E. Kobylowski
Acting Chair

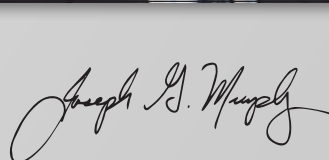


Roger A. Sevigny
Acting Vice Chair

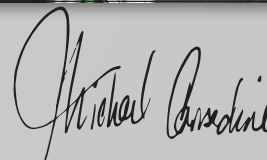


Jacqueline Cunningham
Treasurer

PAST OFFICERS IN 2014



Joseph G. Murphy
Chair



Michael F. Consedine
Vice Chair



LETTER FROM THE EXECUTIVE DIRECTOR

I am happy to report that 2014 was another year of impressive growth and progress in many aspects of the IIPRC's operations. We welcomed Arizona as our 44th Compacting State allowing insurers to prepare standard forms utilizing 90+ Uniform Standards, to receive approval in a current average review time of 30 days or less, and to reach up to three-quarters of the national marketplace for individual life, annuities, disability income, and long-term care insurance products as well as employer group term life insurance products.

More companies than ever before registered to use the IIPRC's speed-to-market process and filed 999 new products — another record year. Of the 198 registered companies in 2014, 24 companies — ranging in size from regional fraternal to top premium-volume writers — registered and filed for the first time; and 96% of companies registered in 2014 had registered in previous years. This continued growth resulted in an overall 13% increase in revenue over the previous year and the second year in a row the IIPRC did not utilize an available line of credit from the National Association of Insurance Commissioners (NAIC).

The IIPRC continued to enhance its product operations for the benefit of its members and filing companies. In 2014, we were pleased that Anne Marie Narcini joined as Regulatory Consultant and Becky McElduff joined as Assistant Director of Product Operations as both provide hands-on support to regulators and filers to ensure transparency and responsiveness in our uniform standards development and our product review operations.

The IIPRC focused on continuous improvements to the user experience for both regulators in Compacting States and Compact filers. In 2014, the IIPRC spearheaded the development of Associated Filings, unique functionality for Compact filings within the NAIC's System for Electronic Rate & Form Filing (SERFF) that enables filers to link associated Compact filings allowing users, the IIPRC Office and the states to view forms in multiple, related Compact filings via easy-to-use hyperlinks. The IIPRC also implemented SERFF Filing Access, an online, free-of-charge tool allowing anyone to search for and download approved Compact filings conveniently from anywhere with access to a computer anytime, day or night.

Outreach was also a significant focus in 2014 as webinars for regulators, industry filers, and consumer representatives were offered on various Compact topics. The IIPRC Team also presented at approximately 20 conferences including forums sponsored by member departments.

While the work on uniform standards development in 2014 did not result in the adoption of new Uniform Standards, the IIPRC achieved a significant milestone by completing the first five-year review involving 50 Uniform Standards adopted before January 1, 2010 with clarifying amendments to reflect updated regulation and the evolving marketplace such as for tax-qualified accelerated death benefits.

Reflecting on 2014, we wish to express our gratitude and appreciation for the perseverance and determined efforts of all those involved in the IIPRC's milestones over these past ten years and especially acknowledge Commissioners and their dedicated staff in our Compacting States along with members of the Legislative Committee, our consumer and industry advisory committees, and filing companies. On behalf of the IIPRC Team, we are committed to providing high-quality, responsive member and customer support to achieve even more milestones in the coming year.



Karen Z. Schutter
Executive Director



COMMITTEE ACTIVITIES

The IIPRC relies upon the regulatory expertise in the members' states to develop, adopt, and oversee implementation of Uniform Standards, Rules and Operating Procedures as well as the budget, technology platform, and the IIPRC's outreach efforts. The Management Committee is charged with managing the affairs of the Commission and looks to the following committees of the Commission to formulate recommendations and solicit public comments on a variety of rulemaking and operational matters.

The **Communications Committee** handles the outreach agenda for the IIPRC. In 2014, the Communications Committee oversaw informational webinars for member regulators and industry filers as well as promoted dialogue between regulators, companies, legislators and others.

2014: Scott J. Kipper (NV), Chair; John M. Huff (MO), Vice Chair

The **Finance Committee** monitors the finances of the IIPRC including preparing the annual budget and, reviewing the actual and projected revenues and expenses; and making recommendations regarding the filing fee structure.

2014: Joseph G. Murphy (MA), Chair; William W. Deal (ID), Vice Chair

The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee. In 2014, the Product Standards Committee met weekly to undertake the review of individual life and annuity uniform standards adopted before January 1, 2010 under the five-year administrative review process; and review draft uniform standards for group disability income insurance.

2014: Ted Nickel (WI), Chair; Todd E. Kiser (UT), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2014, the Rulemaking Committee undertook the review of Operating Procedures and Rules adopted before January 1, 2010 subject to the five-year administrative review process; and continued discussions on mix and match as well as the applicability of state requirements to Compact-approved products.

2014: Jacqueline K. Cunningham (VA), Chair; Julie Mix McPeak (TN), Vice Chair

The **Technology Committee** reviews and recommends any enhancements to the IIPRC filing platform within the NAIC's System for Electronic Rate and Form Filing (SERFF) as well as monitors the technology needs for the IIPRC. In 2014, the Technology Committee worked with the NAIC SERFF Team in implementing Associated Filings and SERFF Filing Access for publicly accessible IIPRC product filing submissions.

2014: Ted Nickel (WI), Chair; Wayne Goodwin (NC), Vice Chair

The **Audit Committee** oversees the independent audit process including retaining and working with the independent auditors, and regularly reviews the IIPRC's financial accounts and reports.

2014: Joseph Torti III (RI), Chair; Monica J. Lindeen (MT), Vice Chair

MEMBERSHIP (AS OF DECEMBER 31, 2014)



Jim L. Ridling
Commissioner, Alabama
Department of Insurance



Lori K. Wing-Heier
Director, Alaska
Division of Insurance



Germaine L. Marks
Director, Arizona
Department of Insurance



Jay Bradford
Commissioner, Arkansas
Insurance Department



Marguerite Salazar
Commissioner, Colorado
Division of Insurance



Ralph T. Hudgens
Commissioner, Georgia
Office of Insurance & Fire
Safety Commissioner



Gordon I. Ito
Commissioner, Hawaii
Insurance Division



William W. Deal
Commissioner, Idaho
Department of Insurance



Andrew Boron
Director, Illinois
Department of Insurance



Stephen W. Robertson
Commissioner, Indiana
Department of Insurance



Nick Gerhart
Commissioner, Iowa
Division of Insurance



Sandy Praeger
Commissioner, Kansas
Insurance Department



Sharon P. Clark
Commissioner, Kentucky
Office of Insurance



James J. Donelon
Commissioner, Louisiana
Department of Insurance



Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance



Therese M. Goldsmith
Commissioner, Maryland
Insurance Administration



Gary Anderson
Acting Commissioner,
Massachusetts
Division of Insurance



Annette E. Flood
Director, Michigan
Department of Financial and
Insurance Regulation



Mike Rothman
Commissioner, Minnesota
Department of Commerce



Mike Chaney
Commissioner, Mississippi
Insurance Department



John M. Huff
Director, Missouri
Department of Insurance



Monica J. Lindeen,
Commissioner, Montana Office
of the Commissioner of Securities
& Insurance



Bruce R. Ramage
Director, Nebraska
Department of Insurance



Scott J. Kipper
Commissioner, Nevada
Division of Insurance



Roger A. Sevigny
Commissioner,
New Hampshire
Department of Insurance



Kenneth E. Kobylowski
Commissioner, New Jersey
Department of Banking &
Insurance



John G. Franchini
Superintendent, New Mexico
Division of Insurance



Wayne Goodwin
Commissioner, North Carolina
Department of Insurance



Mary Taylor
Lt. Governor & Director, Ohio
Department of Insurance



John D. Doak
Commissioner, Oklahoma
Department of Insurance



Laura N. Cali
Commissioner, Oregon
Insurance Division



Michael F. Consedine
Commissioner, Pennsylvania
Insurance Department



Angela Weyne
Commissioner, Puerto Rico
Department of Insurance



Joseph Torti III
Superintendent, Rhode Island
Insurance Division



Raymond G. Farmer
Director, South Carolina
Department of Insurance



Julie Mix McPeak
Commissioner, Tennessee
Department of Commerce and
Insurance



MANAGEMENT COMMITTEE

The Management Committee is formed on an annual basis during the Annual Meeting and is comprised of fourteen members representing three tiers of the premium volume. The compact state's premium volume, as calculated by the National Association of Insurance Commissioners (NAIC) based on the records of the preceding year, determines which tier a member may represent. The first tier members are from the six compacting states with the largest premium volume. The second tier is comprised of four members from compacting states with at least 2% of the market share based on the premium volume. These four members are selected on a rotating basis. The third tier is four members elected from each of the four NAIC Zones and represent compacting states with less than 2% of the premium volume. The Officers are selected by the Commission from the membership of the Management Committee during the Annual Meeting.

Management Committee, 2014 – 2015

Kenneth E. Kobylowski, New Jersey, Acting Chair
Roger A. Sevigny, New Hampshire, Acting Vice Chair
Jacqueline K. Cunningham, Virginia, Treasurer
James A. Stephens, Illinois
Gary Anderson, Massachusetts
Annette E. Flood, Michigan
Mike Rothman, Minnesota
John M. Huff, Missouri
Mary Taylor, Ohio
John D. Doak, Oklahoma
Laura N. Cali, Oregon
Teresa D. Miller, Pennsylvania
Angela Weyne, Puerto Rico
David Mattax, Texas

Management Committee, 2013 – 2014

Roger A. Sevigny, New Hampshire, Chair
Michael F. Consedine, Pennsylvania, Vice Chair
Joseph G. Murphy, Massachusetts, Treasurer
Andrew Boron, Illinois
Stephen W. Robertson, Indiana
Therese M. Goldsmith, Maryland
Annette E. Flood, Michigan
Bruce R. Ramge, Nebraska
Kenneth E. Kobylowski, New Jersey
Mary Taylor, Ohio
Laura N. Cali, Oregon
Julie Mix McPeak, Tennessee
Julia Rathgeber, Texas
Ted Nickel, Wisconsin



LEGISLATIVE COMMITTEE

Senator Delores Kelley, Chair
State of Maryland

Representative Kurt Olson, Vice Chair
State of Alaska

Senator Jason Rapert
State of Arkansas

Senator Rosalyn H. Baker
State of Hawaii

Senator Travis Holdman
State of Indiana

Representative Robert Damron
Commonwealth of Kentucky

Representative Robert D. Hackett
State of Ohio

Representative Brian Patrick Kennedy
State of Rhode Island

ADVISORY COMMITTEES

Consumer Advisory Committee

- AARP
T. Ryan Wilson, Strategic Policy Advisor
- Center for Insurance Research
Brendan Bridgeland, Policy Director and Staff Attorney
- NAIC Consumer-Funded Representative
Sonja Larkin-Thorne
- Former Regulator
Fred Nepple, Retired (formerly with Wisconsin Office of the Commissioner of Insurance)

Industry Advisory Committee

- New York Life Insurance Company
Joe Muratore, Associate General Counsel
- John Hancock Life Insurance Company (U.S.A.)
Marie Roche, Assistant Vice President, US Insurance Contracts & Legislative Services
- Symetra Life Insurance Company
Jill Morgan, Insurance Compliance Manager
- Insured Retirement Institute (IRI)
Lee Covington, V.P., Regulatory Affairs & Compliance
- American Council of Life Insurers
Miriam Krol, Vice President - Long Term Care
- America's Health Insurance Plans
Amanda Matthiesen, Senior Policy Director
- National Association of Insurance and Financial Advisors
William Anderson, Vice President / General Counsel
- Northwestern Mutual Life Insurance Company
Angela Hanson, Product Compliance Manager

IIPRC MILESTONES

2014

Drafting Group Disability Income Product Uniform Standards (7 Uniform Standards in the Suite)
44 Compacting States
999 Product Filings received & 876 Products Approved with Average Review Time of 27 days
198 Companies Registered
Mix and match percentage = 55%
Number of amended filings = 220

2013

Adopted 6 Group Term Uniform Standards; 93 Uniform Standards
43 Compacting States
806 Product Filings received & 769 Products Approved with Average Review Time of 28 days
182 Companies Registered
Mix and match percentage = 57%
Number of amended filings = 251

2012

Adopted 4 Group Term Uniform Standards; 86 Uniform Standards
41 Compacting States
744 Product Filings received & 625 Products Approved with Average Review Time of 23 days
167 Companies Registered
Mix and match percentage = 62%
Number of amended filings = 157

2011

Adopted 9 DI Uniform Standards; 82 Uniform Standards
41 Compacting States
Retained Full-Time Product Reviewer & Actuary
465 Product Filings received & 436 Products Approved with Average Review Time of 38 days
132 Companies Registered
Mix and match percentage = 63%
Number of amended filings = 361

IIPRC MILESTONES

2010

Adopted LTC Uniform Standards; 69 Uniform Standards
38 Compacting States
362 Product Filings received & 276 Products Approved with Average Review Time of 42 days
113 Registered Companies
Mix and match percentage = 55%
Number of amended filings = 233

2009

54 Uniform Standards
Product Filing Rule amended to remove 2-year timeline for "mix and match" filing process
36 Compacting States
244 Product Filings Received & 279 Products Approved with Average Review Time of 28 days
75 Registered Companies
Mix and match percentage = 75%
Number of amended filings = 185

2008

49 Uniform Standards (Life & Annuity)
33 Compacting States
106 Product Filings Received & 126 Products Approved
38 Registered Companies
Average review time = 25 days
Mix and match percentage = 75%
Number of amended filings = 59

2007

31 Uniform Standards
1st product filings submitted & approved in under 30 days.
30 Compacting States
36 Filings received & 29 Products approved
100% Mix & match percentage
11 filings reopened

2006

Adopted Bylaws
Adopted two Operating Procedures and Rules
Adopted First Individual Life Uniform Standards (Universal Life)
29 Compacting States

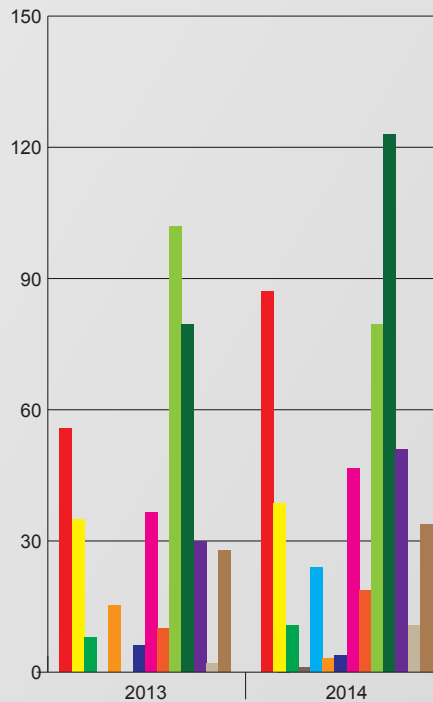
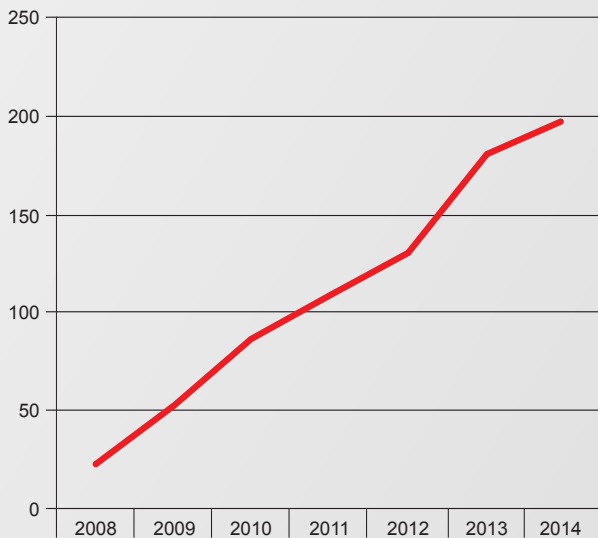
PRODUCT FILING STATISTICS

The tables below provide statistics on the product filings submitted to the IIPRC since first accepting product filings in June 2007 through December 31, 2014.

	2014	2013	2012	2011	2010	2009	2008	2007
Companies Registered	198	182	167	132	113	74	38	N/A
Products Received	999	806	744	464	368	244	106	36
Forms Submitted	3,205	2,657	2,595	1,588	1,456	1,314	395	113
Amended Filings	220	251	157	78	40	-	-	-
Products Approved	876	769	625	436	320	279	126	29
Transactions *	26,164	24,066	19,063	13,685	8,446	7,494	3,063	552
Approval Time (avg) **	27	28	23	38	42	28	25	35
Average # of states/filing	32	31	31	31	26	28	25	25
Mix & Match %	55%	57%	62%	63%	63%	75%	75%	100%
State filing fees collected	\$2,302,532	\$1,856,432	\$1,728,081	\$992,506	\$ 735,683	\$499,942	\$139,910	\$62,965
IIPRC filing fees	\$749,452	\$649,929	\$407,788	\$274,127	\$ 225,442	\$130,900	\$68,730	\$18,050

Historical Filing Data (Year To Date)

Registrations as of Dec 2008 to December 2014



- A02I Individual Annuities - Deferred Non-Variable
- A03I Individual Annuities - Deferred Variable
- A05I Individual Annuities - Immediate Non-Variable
- A06I Individual Annuities - Immediate Variable
- A07I Individual Annuities - Special
- L04G - Group Life - Term
- L02I Individual Life - Endowment
- L04I Individual Life - Term
- L06I Individual Life - Variable
- L07I Individual Life - Whole
- L08 Life - Other
- L09I Individual Life - Flexible Premium Adjustable Life
- H11I Individual Health - Disability
- LT0031 Individual Long Term Care

* "Transactions" refers to the total number of SERFF transactions that have been made through the IIPRC.

** The time for product approval is calculated utilizing business days and excludes the company response time to objection letters, as defined in §105 of the "Product Filing Rule".



PRODUCT FILING TRENDS

- ✦ There are over 21 Types of Insurance (TOIs) available for filing using the 95 adopted Uniform Standards with more than 125 various sub-TOIs available.

- ✦ 3,767 products have been approved by the IIPRC to date since June 2007; which equates to 102,533 SERFF transactions.

- ✦ The TOIs for the Product Filings submitted through SERFF for Compact Filings 2014:
LIFE (62% of all products received):
 - 36% have been TOI – Other (generally application filings)
 - 26% have been Whole Life Products
 - 17% have been Flexible Premium Adjustable
 - 14% have been Term Life Products
 - 5% Variable Life
 - 1% Endowment Life
 - 1% Group Life - Term

- ✦ ANNUITIES (29% of all products received):
 - 54% have been Deferred Non-Variable Annuity
 - 24% have been Deferred Variable Annuity
 - 15% have been Annuity – Special (generally application filings)
 - 6% have been Immediate Non-Variable Annuity
 - 1% have been Immediate Variable Annuity

- ✦ LONG-TERM CARE (7% of all products received)
DISABILITY INCOME (2% of all products received)

- ✦ Of all of the Registered Companies who have submitted filings since 2007:
 - 4% have filed more than 50 times
 - 17% have filed 20 or more times
 - 22% have filed 10 or more times
 - 39% have filed more than twice
 - 18% have filed once; of the 2014 Registered Companies 12% were first time filers

- ✦ There have been 13,323 forms submitted with product filing submissions. The average number of forms per filing is 4. In 2013, the largest single submission consisted of 103 forms; and in 2014, the largest single submission consisted of 45 forms.



MANAGEMENT'S DISCUSSION & ANALYSIS

Please Note: The Interstate Insurance Product Regulation Commission's management discussion and analysis is separate from and not a part of its basic financial statement nor included in its Independent Auditors' Report. McGladrey, LLP has not audited this information and expresses no opinion on the information contained herein.

Introduction

The Interstate Insurance Product Regulation Commission (Commission) is a public entity and instrumentality of its member states charged with carrying out regulatory insurance product reviews for asset-based insurance products under Uniform Standards adopted by its membership. While the Commission's 2014 Annual Report includes the independent auditors report with information on the actual financial results of the organization, this report, which is not a part of the annual external audit examination, is included to provide management's analysis of the organization's financial performance in relation to the previous year.

Financial Highlights

The Commission's financial statements are prepared using the accrual basis of accounting. Revenues, expenses, assets, and liabilities are recognized during the period in which the activity occurs rather than when it is received or paid.

Balance Sheet

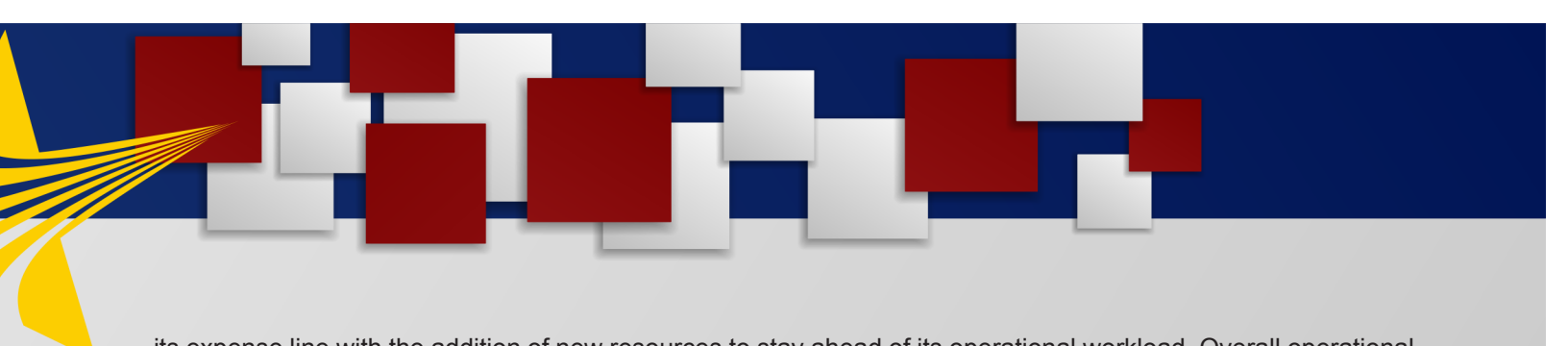
Normal operating activities have resulted in cash and cash equivalents balance of \$694,384 as of December 31, 2014. This is a \$103,061 increase over the prior year due to continued growth in the number of companies filing with the Commission and the volume of product filings submitted to the Commission. For the second consecutive year, the Commission did not draw upon the line of credit that was approved by the NAIC during the 2014 Spring National Meeting.

The Commission ended the year with accounts receivable of \$10,975, which is \$7,334 lower than 2013. This is a function of registration and filings fees received on the last day of December 2014 that were satisfied by electronic payments on the first day of January 2015. Prepaid expenses are \$28,177. This is \$23,460 higher than one year ago primarily due to the filing fee associated with submitting a Private Letter Ruling Request to the Internal Revenue Service seeking certain rulings on the Commission's tax-exempt status and reporting requirements. Other assets are the result of a supplemental executive retirement plan with the Executive Director with vesting of contributions for previous years occurring in July 2015.

Capital assets are relatively unchanged due to the fully depreciated nature of the Commission's capital assets purchased in previous years. Capital assets have been established for the costs associated with acquiring a SERFF version 5 license for Commission filings (computer software) and for necessary computer equipment for staff (computer hardware). Accumulated depreciation/amortization of \$143,299 is attributable to the depreciation of the SERFF license, which began June 1, 2007 with the Commission's first filings and became fully depreciated at May 31, 2010. Though fully depreciated, this asset remains on the balance sheet because it is still in service.

Total current liabilities are \$669,630, an increase of \$101,452 due to a 24% increase in the amount of deferred revenue. In 2014, the Commission received \$476,750 in deferred revenues which was \$92,050 higher than in 2013, due to the number and timing of companies submitting their fees for the following year's annual registration. Also included is \$24,725 due to the NAIC for operational expenses including reimbursement for expenses associated with the Commission meeting held in Washington, DC in December. The remaining balance is due to the timing of payments to vendors, employees, and consultants.

In 2014, the change in net assets equaled a deficit of \$28,403 compared to a positive balance of \$19,199 in 2013 mainly due to expenses associated with the growth in Commission resources in 2014. The net asset deficit presents a cumulative loss on operations of \$2,950,259 as compared to \$2,921,856 in 2013 and is the result of all revenues and expenses since inception. While the Commission continues to experience healthy growth in its revenue lines, the Commission did not breakeven as it did in 2013 as it experienced a corresponding increase in



its expense line with the addition of new resources to stay ahead of its operational workload. Overall operational losses are not uncommon for an organization with less than ten years of revenue-generating activities especially one that is still implementing new product lines and state offerings and adding more resources. Management forecasts that the Commission may borrow a minimal amount in 2015 to cover an operating shortfall and will generate revenue sufficient to cover operating expenses by 2016.

Statement of Revenues, Expenses and Changes in Net Assets

The Commission is a public entity and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company registers with the Commission and submits product filings to the Commission through SERFF. The IIPRC Terms and Procedures for IIPRC Filing Fees was adopted in September 2007 and provides that the Commission adopt its Schedule of Fees in conjunction with the adoption of its annual budget. In 2013, the Commission modified its fee schedule to attract small premium volume companies to register and file with the Commission and to more accurately reflect the resources and operating costs associated with product filings requiring an actuarial review.

The Commission requires an annual registration fee which provides filer access to the filing platform. The annual registration fee is \$5,000 per company and prorated to \$2,500 per company as of July 1. For companies with less than \$50,000,000 in 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, the annual registration fee is \$2,500 per company and prorated to \$1,250 per company as of July 1. The Commission charges filing fees for product filing submissions ranging from \$250 to \$1,000 depending on the type of filing and the premium-volume size of the filer. Regional companies licensed to do business in 12 or less compacting states pay a reduced registration and per filing fee.

Product filing fees were \$749,452 in 2014 compared to \$651,679 in 2013, representing a 15% percent increase over the previous year. Filing volume of 999 product submissions in 2014 exceeded 2013 filings volumes of 806 product submissions as both new and repeat filers increased their usage of the Commission filing process. The amended filings volume was lower by 31 filings in 2014 compared to 2013 with substantial increase in volume in the past two years attributable to companies amending their supporting documentation to reflect updated mortality tables for both life filings in 2013 and annuity filings in 2014. In 2014, Arizona began accepting Compact filings. The average review days for product review and approval remained relatively steady at 27 review days in 2014 compared to 28 review days in 2013 well under its required 60-day review turnaround. In 2014, the Commission continued to experience positive growth in filing volumes from both repeat filers and new filers, with a notable increase in filing activity among companies with \$50 million or less in premium volume. Companies of all sizes are leveraging the streamlined filing and review process and receiving the uniformity and speed-to-market benefits of filing their entire product portfolios thus causing the proportion of mix-and-match filings to continually decrease year over year from 57% in 2013 to 55% in 2014.

Annual registration fees of \$800,825 for 198 companies were earned in 2014 compared to \$718,190 for 180 companies in 2013. While the Commission exceeded the number of companies budgeted to register in 2014 of 193, it budgeted to receive more registrations from insurers with over \$50,000,000 in asset-based premium volume receiving only 131 full registrations compared to the budgeted amount of 142. The Commission received more registrations than budgeted in all other categories including annual and prorated registrations for companies with \$50,000,000 or less in asset-based premium volume and prorated registrations for companies with over \$50,000,000 in asset-based premium volume. The diversified fee schedule in the types of registrations across the premium volume size and regional insurers attracted an increased number of medium and small-premium volume companies to utilize the Commission's filing process.

Expenses ended the year under budget by \$135,644, or 8%, for 2014. Due to an unrealized turnover factor of \$5,848 being built into the budget line for salaries and \$6,198 in earned but unused vacation time being



MANAGEMENT'S DISCUSSION & ANALYSIS

recognized as a salary expense during 2014, the IIPRC ended the year over budget in the Salaries line. Also contributing to this was \$1,311 in overtime that was not anticipated during the preparation of the 2014 budget.

Professional services are \$768,487 versus a budget of \$820,869, a difference of \$52,382. The Commission incurred \$23,577 less in legal fees than budgeted due in large part to the timing and actual amount of the services for outside counsel to assist in matters relating to its tax-exempt status. Also contributing to this variance is a one month delay in filling an open consultant position and a second consultant's billed hours being less than anticipated during the budget process. The Commission did not fully utilize the amount budgeted for the following line items - office services, travel, and in-person meeting expenses. The Commission increased its utilization of informational webinars for members, industry, and consumers, which helped in part to reduce travel for marketing purposes.

On June 1, 2007, the Commission signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the Commission. The NAIC receives an annual administrative fee of \$125,000 for these services. The Commission also pays an annual license/maintenance fee in the amount of \$25,000 for the use of SERFF. Since inception, the Commission has engaged outside legal counsel, on an as needed basis, for the establishment of its structural entity, preparation of bylaws, implementation of employee benefit plans, and the review of governance matters and financing arrangements.

Debt

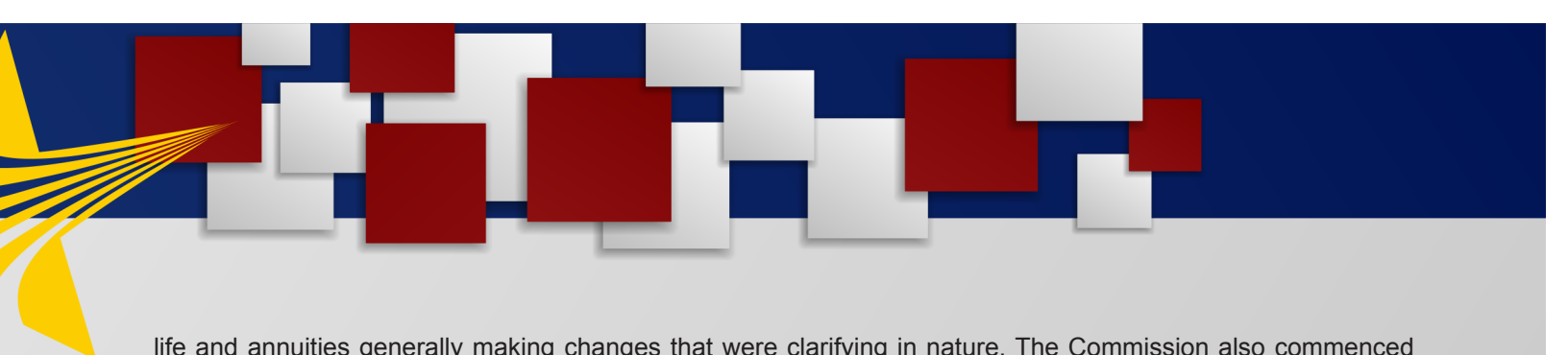
The note payable to the NAIC totals \$3,085,798 as of the end of 2014. This is a \$68,592 increase over the prior year due to the capitalization of interest on the outstanding loan amount. For the second consecutive year, the Commission did not draw upon the line of credit available from the NAIC. Since 2007, the NAIC has provided lines of credit to the Commission to fund operational needs. The resulting note payable carries an interest rate of 2.25% equal to the prime rate of 3.25% at January 1, 2010, the effective date of the debt restructure, less 1%. Principal and interest payments are deferred until the year following the year in which the Commission achieves a profit of \$250,000 or an accumulated cash balance from operations of \$500,000 excluding funds from draws. Outstanding interest is capitalized monthly. The Commission will request a line of credit be made available in the amount of \$150,000 for 2015 which will be considered by the NAIC at its Spring National Meeting.

Economic Factors

The Commission accepted its first product filings in June 2007, and completed its seventh full calendar year of product filing review operations in 2014. The Commission generated \$1,369,911 in filing and registration fees during 2013 and \$1,550,330 in 2014. The Commission's actual revenues in 2014 were \$11,408 more than budgeted revenues which represents the first time in operational history that actual revenues met and exceeded budget and an increase in revenues of 13% over 2013 and 40% over 2012, respectively. In 2014, the Commission received 198 company registrations from large, medium, and small insurance companies and fraternal representing a combined 75% of the nationwide premium volume written for asset-based insurance products. These registered companies filed a combined 999 product filings with the Commission in 2014 helping it to achieve another record year in terms of registered companies and product filing submissions.

In 2014, the Commission welcomed Arizona to its growing membership. With 44 Compacting States (includes Puerto Rico), companies can prepare a single uniform product filing for one submission, review and approval and reach close to 75% of the marketplace in terms of nationwide premium volume for life, long-term care, disability income, and annuities.

The Commission worked on updating Uniform Standards as well as developing uniform standards for a new product line. Pursuant to its rules, the Commission is required to review on a periodic basis the adopted Uniform Standards to determine if changes are necessary because of changes in circumstances since initial adoption or last revision. The Commission undertook a five-year review of several Uniform Standards for both individual



life and annuities generally making changes that were clarifying in nature. The Commission also commenced the development of uniform standards for a new product line for group disability income which is expected to be completed in 2015. Companies are currently utilizing the more than 90 adopted Uniform Standards to file a wide variety of products and benefit features that can be filed for approval especially in the individual lines. This increased utilization is evident in the growth of registered companies and filings as overall turnaround times continue to average under 30 days.

In 2014, the Commission experienced its second full year with a restructured fee schedule that was the byproduct of extensive analysis of its revenue-generating activities and operational cost structure and needs. One of the key features of the modified fee schedule was to create a lower fee structure for smaller premium-volume companies which was effective in attracting even more companies in this category than anticipated in 2014. Another key feature simplified the product filing fee structure to reflect the higher resource costs to the Commission for product filings that require actuarial review. Even though the Commission did not reach its budgeted targets for filings requiring actuarial review other than in the regional filer categories, the Commission received substantially more filings than budgeted for filings not requiring actuarial review and amended filings. The goal of this restructured fee schedule is to grow operating revenue at a reasonable rate to meet current operating expenses and to factor in the need for future operational growth.

In 2014, the Commission came within \$30,000 of generating sufficient operating revenues to meet its operating expenses. While the Commission achieved breakeven in 2013, the Commission experienced a significant increase in operating expenses in 2014 associated with retaining additional resources to coordinate the growing product operations and to facilitate the uniform standards development process. Even with the increase in operating expenses, the Commission's operating expenses were \$135,644 or 8% less than budgeted for 2014. The Commission approved two new resources in its adopted 2015 annual budget to provide additional capacity in the product review operations. With this continued growth in operations, the Commission does not expect that its growing operating revenues will be sufficient to cover its operating expenses in 2015. The Commission anticipates that as more uniform standards are adopted, more companies register, more companies increase their filing utilization, and more states are added, that its operating revenue will exceed its operating expenses by 2016 while continuing to sustain this position into the foreseeable future.

Because of the strong revenue performance and careful management of its operating expenses, the Commission did not utilize the available NAIC Line of Credit in 2014 or 2013. At the NAIC's Spring 2015 National Meeting, the Commission is requesting an available Line of Credit from the NAIC in the amount of \$150,000 and believes if its revenue budget is achieved in 2015, as it was in the previous two year, it will only need to draw a small portion of this amount, if any, to cover the variance between the operating expenses and operating revenues.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances and to show accountability for the funds received in 2014 and 2013. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Executive Director, at (202) 471-3962.



AUDIT REPORT



INDEPENDENT AUDITOR'S REPORT

To the Audit Committee

Interstate Insurance Product Regulation Commission

Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Interstate Insurance Product Regulation Commission (the IIPRC), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statement 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 IIPRC as of December 31, 2014 and 2013, 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.

A handwritten signature in black ink that reads 'McGladrey LLP'.

Kansas City, Missouri
March 7, 2015



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 694,384	\$ 591,323
Accounts receivable	10,975	18,319
Interest receivable	5	3
Other assets (Note 3)	71,628	48,724
Prepaid expenses	28,177	4,717
Total current assets	805,169	663,086
Long-Term Assets:		
Property and equipment, net (Note 2)	-	442
Total assets	\$ 805,169	\$ 663,528
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable	\$ 45,607	\$ 65,609
Accrued expenses	75,645	69,145
Deferred revenue	476,750	384,700
Other liabilities (Note 3)	71,628	48,724
Total current liabilities	669,630	568,178
Long-Term Liabilities:		
Note payable to the NAIC (Note 4)	3,085,798	3,017,206
Total liabilities	3,755,428	3,585,384
Net Deficit:		
Unrestricted	(2,950,259)	(2,921,856)
Total liabilities and net deficit	\$ 805,169	\$ 663,528

See Notes to Financial Statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

Years ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Annual registrations	\$ 800,825	\$ 718,190
Product filing fees	749,452	651,679
Interest income	56	42
Total revenues	1,550,333	1,369,911
Expenses:		
Salaries	489,804	350,561
Employee benefits	143,960	89,930
Professional services	768,487	744,938
Travel	64,349	55,018
Rental and maintenance	7,927	4,718
Depreciation and amortization	442	1,766
Interest expense	68,592	67,067
Insurance	12,352	12,011
Office services	16,413	18,974
Meeting expenses	6,410	5,729
Total expenses	1,578,736	1,350,712
(Increase) decrease in net deficit	(28,403)	19,199
Net deficit, beginning of year	(2,921,856)	(2,941,055)
Net deficit, end of year	\$ (2,950,259)	\$ (2,921,856)

See Notes to Financial Statements.



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
(Increase) decrease in net deficit	\$ (28,403)	\$ 19,199
Adjustments to reconcile changes in net deficit to net cash flows from operating activities:		
Depreciation and amortization	442	1,766
Interest expense included in note payable	68,592	67,067
Changes in operating assets and liabilities:		
Accounts receivable	7,344	(8,669)
Interest receivable	(2)	(1)
Prepaid expenses	(23,460)	(35)
Accounts payable	(20,002)	23,735
Accrued expenses	6,500	4,150
Deferred revenue	92,050	80,260
Net cash provided by operating activities	103,061	187,472
Net increase in cash	103,061	187,472
Cash		
Beginning	591,323	403,851
Ending	<u>\$ 694,384</u>	<u>\$ 591,323</u>

See Notes to Financial Statements.



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of operations: The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multi-state commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use their expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. The IIPRC had 44 and 43 member states as of December 31, 2014 and 2013, respectively.

Basis of accounting for revenues: The IIPRC earns revenue predominately through annual registration and product filing fees. Product filing fees are earned when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states. Annual registration fees are recognized as revenue through the registration period and are assessed at year-end as deferred revenue.

Basis of accounting and presentation: The financial statements of the IIPRC have been prepared on the accrual basis of accounting.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and cash equivalents: For purposes of the statement of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds. The IIPRC, 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. Delinquent and/or uncollectible receivables are written off based on individual evaluation and specific circumstances.

Property and equipment: Property and equipment consists of computer hardware and software and are stated at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is computed by the straight-line method over the following useful lives:

Computer software	3 to 5 Years
Computer hardware	3 Years

Net deficit: At December 31, 2014 and 2013, net deficit consisted entirely of unrestricted net deficit.

Functional expenses: The Not-for-Profit Entities topic of the FASB ASC requires not-for-profit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2014 and 2013 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.



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income tax provision: The IIPRC has been organized as a joint-cooperative of the compacting states and is therefore generally exempt from federal and state income taxes. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC is currently in the process of applying for and obtaining its tax exemption from the Internal Revenue Service and has filed a Private Letter Ruling Request with the IRS, dated January 22, 2015. Uncertain tax positions, if any, are recorded in accordance with FASB 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 standards that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2014 or 2013.

Note 2. Property and Equipment

	2014	2013
Hardware	\$ 16,397	\$ 16,397
Software	126,902	126,902
Total cost	143,299	143,299
Accumulated depreciation	(143,299)	(142,857)
Net property and equipment	\$ -	\$ 442

Note 3. Other Assets/Other Liabilities

Other assets and other liabilities consist of a supplemental executive retirement plan with the Executive Director. This plan has been funded in its entirety by the IIPRC and the related liability is included in other liabilities on the December 31, 2014 and 2013 statements of financial position. Contributions to the plan totaled \$20,000 for the years ended December 31, 2014 and 2013. The participant assumes all the risks and benefits associated with the losses and gains from the investments of the plan. The plan is anticipated to be 100 percent vested in July 2015.

Note 4. Line of Credit from and Notes Payable to the NAIC

On January 1, 2010, an Amended, Restated and Consolidated Promissory Note with the NAIC took effect. The note consolidated all previous outstanding note and line of credit balances and bears interest at 2.25 percent, compounded monthly. Repayment of principal and interest is deferred until the last calendar date of the first quarter following the trigger date. The trigger date is defined as the date of the Independent Auditor's Report related to the audited financial statements in which one or both of the following has been achieved: increase in net assets of at least \$250,000; accumulated cash balance of at least \$500,000 from operations, excluding funds from draws. As of December 31, 2014, the trigger date has not been achieved, and, as a result, the outstanding interest is included in the principal balance of the note. Following the trigger date, the note will mature in 60 months and bear interest at 2.25 percent, compounded monthly. Quarterly principal and interest payments will be due through maturity.



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 4. Line of Credit From and Notes Payable to the NAIC (Continued)

Also on January 1, 2010, a Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC an additional line of credit not to exceed \$850,000, with an interest rate of 2.25 percent, compounded monthly. Repayment terms are identical to the Amended, Restated and Consolidated Promissory Note described above. The deferral of debt repayment reduced draws on this line of credit to \$450,000.

A \$400,000 Line of Credit Agreement for 2011, effective January 1, 2011, was executed with the NAIC. An advance of \$250,000 was drawn in August 2011 and another in the amount of \$150,000 occurred in November 2011.

A \$400,000 Line of Credit Agreement for 2012, effective January 1, 2012, was executed with the NAIC. An advance of \$250,000 was drawn in October 2012.

A \$250,000 Line of Credit Agreement for 2013, effective January 1, 2013, was executed with the NAIC. No advances were drawn during 2013.

A \$150,000 Line of Credit Agreement for 2014, effective January 1, 2014, was executed with the NAIC. No advances were drawn during 2014.

The total outstanding principal and interest balance of the note payable and lines of credit as of December 31, 2014 and 2013 is \$3,085,798 and \$3,017,206, respectively. As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allows the NAIC to call the remaining principal balance and all accrued interest for immediate payment. Management of the IIPRC does not expect the NAIC to demand payment of any portion of the outstanding balance during fiscal year 2015.

An additional line of credit in the amount of \$150,000 to be made available if necessary, to cover expenses of the IIPRC for 2015 is on the agenda to be considered by the NAIC at the NAIC 2015 Spring National Meeting.

Note 5. Related Party Transactions

Effective June 2007, the IIPRC entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a non-exclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of \$125,000 for the years ended December 31, 2014 and 2013. The IIPRC also pays an annual license and maintenance fee in the amount of \$25,000 for the use of SERFF. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.



AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Amounts charged during the year and amounts owed at year-end for IIPRC are as follows:

	2013	2012
Administrative services provided by the NAIC	\$ 125,000	\$ 125,000
License fee paid to NAIC	\$ 25,000	\$ 25,000
Amounts payable to NAIC	\$ 24,725	\$ 37,597

Note 6. Defined Contribution Plan

The IIPRC has a 401(a) defined contribution plan which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2014 and 2013, the IIPRC agreed to match up to 3.5 percent of compensation of employees who contribute to the plan and contributed 2 percent of all employees' annual compensation. The IIPRC made contributions of \$24,090 and \$17,386 for the years ended December 31, 2014 and 2013, respectively.

Note 7. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2013 through February 21, 2014. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2013.

HIGHLIGHTS



HIGHLIGHTS



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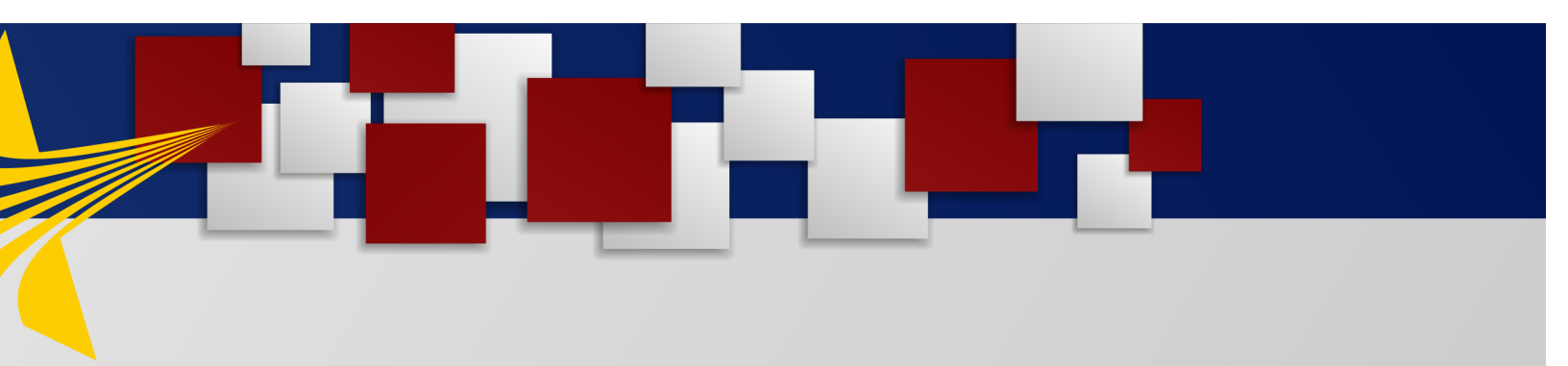
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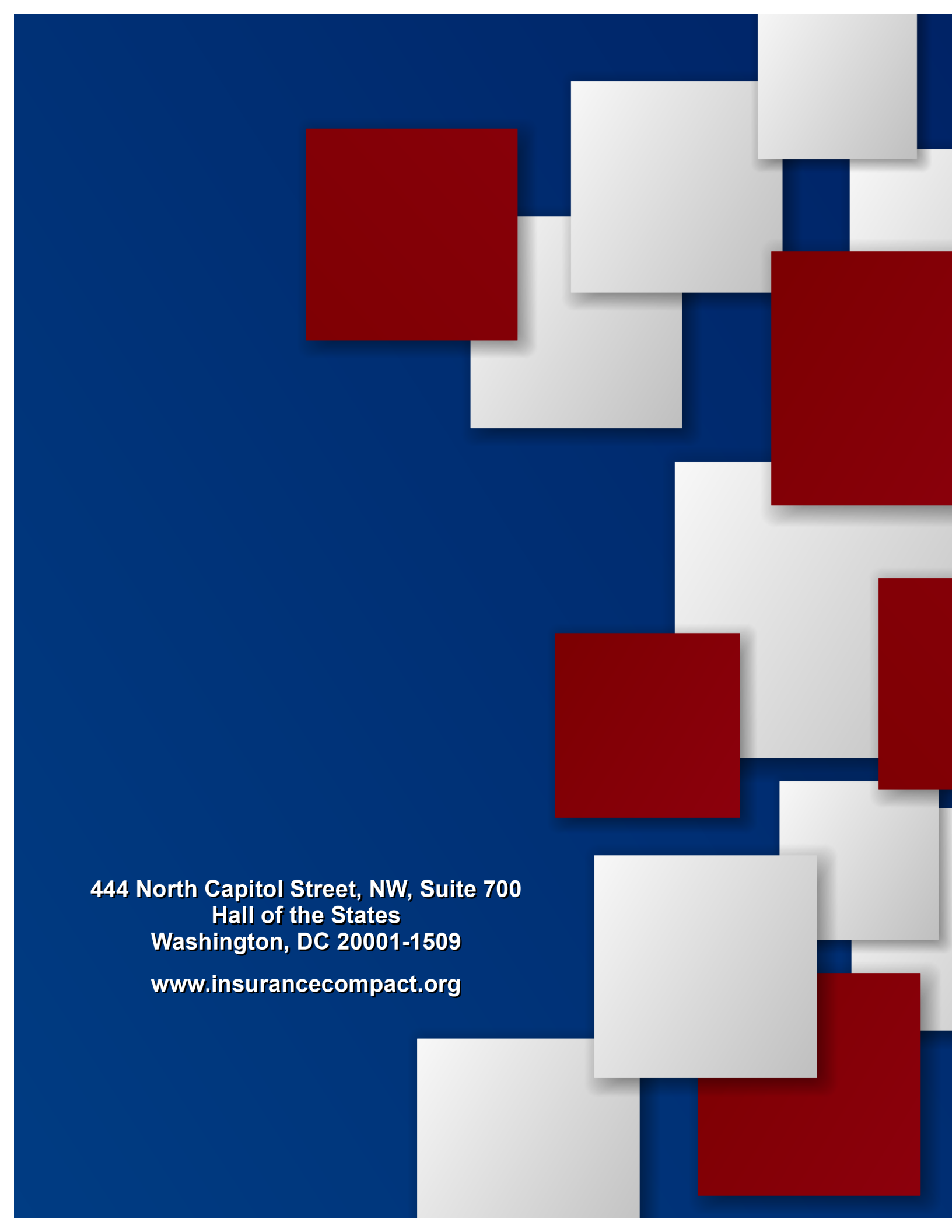
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