NATIONAL ASSOCIATION *of* INSURANCE COMMISSIONERS

2014 ANNUAL REPORT

STATE INSURANCE REGULATION

PROTECTING

THE FUTURE

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 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.

2014 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

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 Services

Tim Mullen
Director, Market Regulation

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

Frosty Mohn
Director, Technical Services

Brent Roper
Director, Human Resources

Association Update

The NAIC prides itself on its diversity, innovative employment practices and exceptional benefits. The association successfully sustained operations without major cuts in staffing or benefits in 2014. Employee turnover, excluding unavoidable separations such as retirements, was 6.1 percent.

The NAIC's unique employee benefit, the Infants in the Workplace program, celebrated its 14th year and welcomed 13 new babies to the NAIC offices, including two sets of twins. Since the program's inception, 136 babies have accompanied their parents to work.

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. The following describes some of the key advancements made during 2014.

Group Supervision

Forty-one states and D.C. have now passed key amendments to their holding company statutes, which will aid them in better assessing the potential contagion risks present in the business enterprise that include insurers. Twenty-one 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 December, 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. State insurance regulators continue to enhance their group supervisory framework and have been increasingly involved 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, 25 jurisdictions have passed the revised reinsurance models, which covers approximately 60% of the U.S. insurance market.

In 2014, the NAIC updated the Process for Developing and Maintaining the *NAIC List of Qualified Jurisdictions,* to address information sharing requirements. The NAIC has reviewed seven countries' reinsurance supervisory systems and placed them on the *NAIC List of Qualified Jurisdictions.* These countries are Bermuda, France, Germany, Ireland, Japan, Switzerland and the U.K.

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 26 certified reinsurers. The Working Group also adopted the *Uniform Application Checklist for Certified Reinsurers*, which is intended to provide further guidance to help ensure consistency across the states' certification processes.

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, statutory blanks changes 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). Twenty jurisdictions representing approximately 36% of premium have adopted the SVL.

Use of Captives by Life Insurers

The NAIC adopted a conceptual 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 framework components were adopted in 2014: a XXX/AXXX *Reinsurance Supplement*, which the ceding insurer will file by April 1, 2015, disclosing information about the assets backing the reserves, even when they are held at the captive; financial analysis guidelines to provide consistent reviews of these transactions; and adoption of *Actuarial Guideline (AG) 48* for inclusion in the *NAIC Accounting Practices and Procedures Manual*.

The Financial Regulation Standards and Accreditation (F) Committee is considering application of its standards to captives reinsuring life insurance, variable annuity and long-term care business.

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 a baseline level of financial regulatory oversight. This creates substantial efficiencies for insurance regulators, who are then able to coordinate and rely on each other's work. It also creates far greater efficiencies for insurance companies licensed in accredited states, which are then not subject to financial examinations or other financial oversight by multiple jurisdictions.

During 2014, the NAIC conducted 11 full accreditation reviews, 41 interim annual reviews and 10 pre-accreditation reviews. The NAIC also voted to update the *Part A: Laws and Regulations* accreditation standard related to Capital and Surplus Requirement. The update changes the "trigger point" for the life/health risk-based capital trend test to be more conservative and consistent with that used for property/casualty insurers. The NAIC also voted to update the *Corrective Action Standard* to now specifically require that commissioners have authority to issue an order requiring an insurer who is found to be in hazardous financial condition to correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the commissioner. Additionally, various accreditation guidelines were revised for related updates to the risk-focused surveillance financial examination 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 with respect to the process for considering new applications. Seven new insurers were added to the NAIC list in 2014. The most recent financial statistics (from 2013) reflect that listed insurers wrote direct surplus lines' premiums of nearly $10.6 billion, or approximately 28% of the $37.8 billion in total U.S. surplus lines' premiums written for the year. At year-end 2014, listed insurers maintained $4.9 billion in trust assets which are held as collateral against gross claim liabilities estimated at $16.7 billion.

Securities Valuation Office

The NAIC's Securities Valuation Office (SVO), housed at the Capital Markets and Investment Analysis Office in New York City, 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 2014, the SVO received filings from 1,310 insurers. These filings covered 12,758 securities with an insurer total carrying value of approximately $577 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 Structured Securities Group (SSG) is housed at the Capital Markets and Investment Analysis Office in New York. The 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).

Capital Markets

The NAIC Capital Markets Bureau (CMB) was formed in 2010. The CMB monitors trends, developments and activity in the global financial markets and analyzes the potential impact on investment activities and portfolios of U.S. insurance companies. In 2014, the group published 15 *Capital Markets Special Reports.* Topical issues included capital markets activity and volatility throughout the year, the impact of the alternatives risk transfer market on the reinsurance sector, investment strategies and return on investments, commercial real estate, collateralized loan obligations and derivatives. In the CMB's *Hot Spot* Web page, the CMB also examines matters prominent in the capital markets but not likely to have material impact on U.S. insurance companies' investments. The five *Hot Spots* published in 2014 focused on developments in Ukraine, Thailand and Argentina as well as the increased volatility in the oil industry. The CMB's publications are available on the NAIC website.

MARKET REGULATION

Through the work of the Market Regulation and Consumer Affairs (D) Committee, state insurance regulators protect consumers – maintaining and improving the availability of affordable insurance products and services.

In 2014, the NAIC held its first Market Regulation Summit. During the forum, state insurance regulators discussed and set priorities for market conduct regulatory activities. Attendees 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. In 2014, there were 46 participating jurisdictions, up from 29 when the program launched in 2009. The NAIC assists member jurisdictions by receiving MCAS filings, validating data and enhancing the analysis of market conduct information across all participating jurisdictions. There were 25,888 MCAS filings submitted and centrally stored at the NAIC in 2014.

Complaints Database System

The 56 jurisdictions submitted a total of 188,346 complaints to the Complaints Database System (CDS) in 2014. The CDS 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. In 2014, 7,713 actions were entered into the database.

Online Fraud Report System

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 NICB receives reports from more than 90% of the property/casualty carriers doing business in the United States. The NAIC received 58,619 reports in 2014 that were distributed to members. Increased reporting to the jurisdictions helps reduce fraud, which, in turn, cuts insurers' expenses, protects consumers and reduces costs that otherwise lead to higher premiums.

CONSUMER EDUCATION

Education is the cornerstone of the NAIC's mission — protecting consumers by helping them make wise insurance-related decisions. The NAIC website provides basic information for consumers while connecting them with their insurance department. But the lion's share of education and outreach is anchored by Insure U. Dedicated completely to consumer outreach, Insure U provides tips and information for consumers organized by life event, life stage and insurance type. Additional special sections support mini-campaigns with specific targets, such as teenage drivers, military families and disaster preparation.

In 2014, the Insure U website was completely redesigned to organize and display the tremendous amount of content added since its original launch. The new design enhances site performance, while improving presentation on mobile and desktop environments.

Get Ready Resources

In 2014, the NAIC's consumer education campaign focused on *Get Ready* resources, information and tools developed to educate consumers about their insurance needs before a crisis occurs. The campaign identified events with insurance implications such as: a wedding; a new car or home; a job change; a new child; and turning 50. Each event features online *Get Ready* resource kits with easy-to-understand checklists, tips and tools to help educate consumers. The integrated campaign included traditional and social media relations tactics to generate maximum awareness and drive engagement with the new *Get Ready* resource kits.

In 2014, the NAIC released 15 Consumer Alerts, educating consumers on topics from ride-sharing to air ambulance insurance. More users than ever visited the NAIC's websites with insureuonline.org garnering more than 280,000 users and NAIC.org attracting more than 1.8 million individual users.

Award-Winning Amy Grant Campaign

Since 2012, the NAIC has teamed with Grammy® award-winning singer/songwriter Amy Grant to engage the "sandwich generation" — baby boomers with kids at home who are also caring for aging parents while planning their own retirement. Having nursed her mother through dementia at the end of her life, Grant was ideally suited to address issues facing boomers with aging parents. Grant's 2012 radio public service announcement (PSA) told of her experience and how Insure U can help boomers prepare for the future.

In 2013, Grant filmed a television PSA using her personal experience to emphasize the importance of preparing for the complex financial decisions facing boomers. The PSA debuted at the 2013 Spring National Meeting in Houston as part of a special "Backstage with Amy Grant" event.

In 2014, Grant's message continued to resonate and the NAIC ended the year with the television PSA reaching more than 54 million viewers, for an equivalent advertising value of more than $2 million. In its three-year run, the radio PSA reached an estimated total audience of more than 929 million, for an equivalent advertising value of nearly $13 million.

Professional Recognition

In October, the NAIC received recognition from the Platinum PR awards with an honorable mention for the Amy Grant radio PSA, while the Public Relations Society of America (PRSA) awarded the NAIC with two gold and seven silver PRISM awards. The gold PRISM awards went to the Teen Driving and "I Do Adventures" consumer campaigns.

GOVERNMENT RELATIONS

The U.S. system of state-based insurance regulation has been proven effective – providing stability and consumer protection regardless of political climate. Today, insurance markets are changing rapidly, crossing state and national borders, and as a result, the NAIC continues to coordinate with U.S. and international governments and agencies. State insurance regulators and the NAIC are often called upon to provide insurance expertise and help shape public policy that protects consumers and builds solid markets.

Implementing Dodd-Frank

Throughout 2014, the NAIC gave input to Congress, federal regulators and the Administration on a number of insurance-related policy issues. NAIC members and staff worked extensively with Congress to address the implementation of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. In large part due to these efforts, Congress passed legislation to clarify capital requirements for insurance companies regulated by the Federal Reserve. The Federal Reserve has limited regulatory authority over insurance companies operating as part of a thrift holding company or designated as a systemically important financial institution.

Reauthorizing *Terrorism Risk Insurance Act* (TRIA) & Establishing the National Association of Registered Agents and Brokers (NARAB)

The NAIC also supported congressional reauthorization of *Terrorism Risk Insurance Act* (TRIA) before its expiration at the end of 2014. Attached to TRIA was NAIC supported legislation to establish the National Association of Registered Agents and Brokers (NARAB). NARAB would streamline the producer-licensing process while preserving important state consumer protections and regulatory authority. While Congress was unable to reconcile differences in its legislation to authorize the TRIA program before the end of the year, the NAIC efforts paved the way for passage of both pieces of legislation in early 2015.

In November NAIC Vice-President and Pennsylvania Insurance Commissioner Michael F. Consedine testified before Congress about his work as chair of the International Insurance Relations (G) Committee. He highlighted the strengths of the U.S. regulatory framework before the House Financial Services Subcommittee on Housing and Insurance. Consedine highlighted the important role that state insurance regulators play in developing international standards.

Financial Stability Oversight Council

In 2014, members of the NAIC were represented at the Financial Stability Oversight Council (FSOC) by Missouri Insurance Director John M. Huff, and his successor, NAIC President and North Dakota Insurance Commissioner Adam Hamm, who took over in September. Together, Huff and Hamm served as the voice of state insurance regulators alongside the nation's chief financial regulators to promote stability in the financial sector.

The *Bank Holding Company Act*

One of the central tenets of insurance regulation is the ability to wall off an insurance legal entity to limit contagion from problems elsewhere within a group of entities. The *Bank Holding Company Act* contains important safeguards for movement of capital from an insurer to a bank; however, it is unclear in the law if insurers organized as thrift holding companies have the same protection. The NAIC supports congressional efforts to address the issue.

HEALTH POLICY

In 2014, the NAIC continued to assist the states facing market reforms and regulatory challenges in the health insurance sector. State insurance regulators working through the NAIC coordinated with federal agencies on health reform rule-making activities.

Discussions with Federal Policymakers and Colleagues

In April, 43 state insurance regulators and NAIC CEO Senator Ben Nelson met with President Barack Obama, Vice President Joe Biden and then-Secretary of Health and Human Services (HHS) Kathleen Sebelius to discuss enrollment issues under the *Affordable Care Act* (ACA). The meeting served as an opportunity for insurance regulators to discuss ongoing enrollment challenges in their states and coordinate with HHS and the Administration to develop solutions. The White House requested the 90-minute meeting to prepare for the 2015 open enrollment period for health exchange marketplaces. The NAIC followed up the meeting with a series of letters, phone calls and meetings with HHS.

On June 12, Monica Lindeen, NAIC President-Elect and Commissioner of the Montana Office of Securities and Insurance, testified before Congress regarding the adequacy of health care provider networks. In her testimony before the House Energy and Commerce Subcommittee on Health, Lindeen explained why it is critical that state insurance regulators have the flexibility to regulate provider networks based on considerations such as geographic access and premium impact. She went on to outline the role of state insurance departments in providing consumer protection and sufficient access to economical care for patients. The NAIC is in the process of amending the model act on network adequacy to give states guidance in reviewing their laws and regulations.

Long-Term Care Insurance Availability & Affordability

Another priority for regulators in 2014 was the availability and affordability of long-term care insurance policies. The NAIC developed and adopted amendments to its *Long-Term Care Insurance Model Act* to address premium stability for future sales as well as a bulletin focused on premium increases for existing blocks of business.

Implementing the *Affordable Care Act*

In December, the NAIC adopted model regulations for individual and small group health insurance coverage and the new *Statement of Statutory Accounting Principles (SSAP) No. 107 — Accounting for the Risk-Sharing Portions of the Affordable Care Act*. These models and this new SSAP will assist states as they update their regulations in light of the ACA.

The NAIC continues to update a list of frequently asked questions for state insurance departments to use in consumer outreach and education. The Health Care Reform Regulatory Alternatives Working Group continues to assist states that may seek a waiver from the ACA requirements in 2017.

INTERNATIONAL POLICY

The NAIC's commitment to international insurance supervision deepened as 2014 brought intense discussion and significant developments. It was a year of increased collaboration with regulators internationally, regionally, bilaterally and through standard-setting bodies such as the International Association of Insurance Supervisors (IAIS).

International Standard Setting

The NAIC has devoted significant resources and energy to international standard setting through involvement at the IAIS and other international bodies, such as the Organization for Economic Cooperation and Development. The NAIC's work at the IAIS in 2014 addressed a number of key topics, such as financial stability issues including: the supervision of global systemically important insurers; the development of global group capital standards; and enhancing the supervision of internationally active insurance groups. In 2014, NAIC members and staff served on more than 20 IAIS committees, working groups and task forces.

Group Capital

The ComFrame Development and Analysis Working Group was established in early 2014 to provide ongoing technical and expedited strategic input on the IAIS capital development initiatives, including field testing of IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).

In September, the NAIC introduced guiding principles for a U.S. Group Capital Proposal. At the 2014 Fall National Meeting, the NAIC introduced a group capital methodology concepts discussion paper, providing two options for discussion: a risk-based capital plus approach and a cash flow approach. The work at the IAIS, in particular the insurance capital standard consultation draft that was released in December, and our ongoing discussions with the Federal Insurance Office and the Federal Reserve Bank will continue to inform the work on the methodology concepts.

In December, the IAIS released the Global Insurance Capital Standard for consultation. The working group selected 60 questions to which to respond and submitted them to the IAIS on Feb. 16, 2015. The selected questions focused on ICS principles, valuation, margins over current estimates, capital resources, capital requirement, the standard method and other procedures for calculating the ICS capital requirement.

International Insurance Dialogues

U.S. state insurance regulators have strengthened supervision through enhanced coordination and better communication between international regulators. State regulators have set up supervisory colleges for all major internationally active insurers based in the U.S., and continue to develop best practices for supervisory colleges both domestically and internationally.

In March, the NAIC joined the Financial Services Agency of Japan (FSA) to launch a new bilateral dialogue between insurance supervisors from the U.S. and Japan, the two largest single insurance markets in the world. Both American and Japanese regulators showed strong support for regulatory modernization that protects consumers while stimulating economic growth.

Building on a regular series of transatlantic insurance dialogues over the past decade, 2014 also saw advancements in the EU-U.S. Dialogue Project. The Project, which includes representatives from the NAIC, the European Insurance and Occupational Pensions Authority (EIOPA), the European Commission and the Federal Insurance Office (FIO), is designed to advance understanding of activities and regulatory responses in the U.S. and EU. The Project members met several times in 2014, including hosting a public forum centered on group supervision and the Own Risk Solvency Assessment (ORSA).

International Insurance Forum

In May, more than 200 regulators, policymakers, insurers and stakeholders attended the NAIC's annual International Insurance Forum in Washington, D.C. The forum brought together thoughtleaders from around the world to discuss international insurance regulatory issues such as enhanced group supervision, supervisory colleges, corporate governance and capital standards.

Asia-Pacific Insurance Forum

The NAIC hosted a regional symposium to bring together regulators and industry executives from Australia, China, Japan, Malaysia, South Korea, Thailand and the U.S. The two-day Asia-Pacific Insurance Forum included more than 65 regulators from the seven countries to discuss international standard-setting, capital standards, reinsurance and group supervision.

International Fellows Program

In 2014, the NAIC's International Fellows Program celebrated its ten year anniversary. Conducted twice a year — the program advances working relations with foreign markets, with an emphasis on the exchange of regulatory techniques and technology. Following the completion of the 2014 fall program, nearly 220 fellows from 29 countries have participated in the training program. Thirty-seven U.S. jurisdictions have hosted foreign regulators in the program.

NATIONAL ASSOCIATION *of* INSURANCE COMMISSIONERS

2014 ANNUAL REPORT

STATE INSURANCE REGULATION

PROTECTING THE FUTURE

FINANCIAL STATEMENTS

National Association of Insurance Commissioners

Financial Report
December 31, 2014

McGladrey

Assurance ▪ Tax ▪ Consulting

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McGladrey

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, 2014 and 2013, 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, 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.

McGladrey LLP

Kansas City, Missouri
March 3, 2015

National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	**$ 11,272,380**	$ 10,077,381
Accounts receivable, less allowance for doubtful accounts of 2014—$3,591,979 and 2013—$3,363,524	**11,172,746**	11,626,833
Interest receivable	**93,142**	118,474
Incentive receivable (Note 4)	**178,901**	168,774
Prepaid expenses	**2,752,930**	2,793,419
Inventories	**88,106**	129,152
Investments (Note 2)	**106,249,243**	104,514,651
Total current assets	**131,807,448**	129,428,684
Operating Note Receivable (Note 6)	**3,085,798**	3,017,206
Incentive Receivable (Note 4)	**1,591,761**	1,770,662
Property and Equipment, net (Note 3)	**22,950,322**	17,784,667
Total assets	**$ 159,435,329**	$ 152,001,219
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 2,448,230**	$ 1,639,975
Accrued expenses and other current liabilities	**15,730,132**	15,268,440
Deferred revenue	**5,773,178**	6,427,378
Total current liabilities	**23,951,540**	23,335,793
Deferred lease incentive (Note 4)	**12,061,424**	11,889,696
Deferred pension liability (Note 5)	**3,678,439**	1,429,835
Total liabilities	**39,691,403**	36,655,324
Unrestricted Net Assets:		
Allocated	**117,975,626**	113,597,603
Unallocated	**1,768,300**	1,748,292
Total unrestricted net assets	**119,743,926**	115,345,895
Total liabilities and net assets	**$ 159,435,329**	$ 152,001,219

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Database fees	**$ 26,901,198**	$ 26,363,745
Publications and insurance data products	**15,222,095**	15,098,203
Valuation services	**26,278,981**	29,225,517
Transaction filing fees	**12,463,429**	12,735,798
Administrative services/license fees	**8,602,689**	7,797,077
Member assessments	**2,344,464**	2,300,773
Education and training	**883,814**	1,088,128
National meeting registration fees	**1,938,775**	1,893,100
Other	**92,653**	293,422
Total revenues	**94,728,098**	96,795,763
Expenses:		
Salaries	**41,749,857**	40,349,451
Temporary personnel	**422,682**	382,344
Employee benefits	**11,426,222**	11,232,874
Professional fees	**16,430,154**	17,974,540
Travel	**4,603,242**	4,119,371
Rental and maintenance	**6,648,747**	5,649,529
Depreciation and amortization	**4,071,997**	3,986,183
Insurance	**517,297**	474,336
Office supplies	**2,055,932**	1,777,005
Printing expense	**186,788**	322,645
Meetings	**2,155,997**	1,792,093
Education and training	**1,626,842**	1,546,635
Bad debt expense	**362,921**	470,299
Other	**492,139**	374,498
Total expenses	**92,750,817**	90,451,803
Changes in net assets before investment income and pension adjustment	**1,977,281**	6,343,960
Investment income (Note 2)	**6,013,553**	13,504,318
Changes in net assets before pension adjustment	**7,990,834**	19,848,278
Pension adjustment	**(3,592,803)**	5,210,693
Changes in net assets	**4,398,031**	25,058,971
Net assets, beginning of year	**115,345,895**	90,286,924
Net assets, end of year	**$ 119,743,926**	$ 115,345,895

See Notes to Financial Statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Changes in net assets	**$ 4,398,031**	$ 25,058,971
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Interest income included in operating note receivable	**(68,592)**	(67,067)
Depreciation and amortization	**4,071,997**	3,968,462
Net realized and unrealized (gains) on investments	**(2,931,101)**	(10,473,490)
Loss on sale of property and equipment	**2,508**	6,530
Changes in operating assets and liabilities:		
Accounts receivable, net	**454,087**	(3,378,404)
Incentive receivable	**168,774**	159,221
Interest receivable	**25,332**	6,507
Prepaid expenses	**40,489**	448,814
Inventories	**41,046**	161,739
Accounts payable	**808,255**	(219,683)
Accrued expenses and other current liabilities	**461,692**	3,321,619
Deferred revenue	**(654,200)**	(263,260)
Deferred lease incentive	**171,728**	(1,169,479)
Deferred pension liability	**2,248,604**	(4,282,550)
Net cash provided by operating activities	**9,238,650**	13,277,930
Cash Flows From Investing Activities:		
Purchase of property and equipment	**(9,245,626)**	(4,158,907)
Proceeds from disposition of property and equipment	**5,466**	-
Purchase of investments	**(35,396,698)**	(40,267,655)
Proceeds from disposition of investments	**36,593,207**	24,113,532
Net cash (used in) investing activities	**(8,043,651)**	(20,313,030)
Net increase (decrease) in cash and cash equivalents	**1,194,999**	(7,035,100)
Cash and Cash Equivalents:		
Beginning of year	**10,077,381**	17,112,481
End of year	**$ 11,272,380**	$ 10,077,381

See 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, 2014 and 2013, 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.

Financial instruments: Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and deferred revenue. The carrying amounts reported in the statement of financial position for these financial instruments approximate fair value due to the short-term maturity of these instruments. The fair values of fixed income and equity investments are based on quoted market prices at the reporting date for those or similar investments. The fair values of alternative investments are reported using the practical expedient. The practical expedient allows for use of the net asset value (NAV), either as reported by the investee fund or as adjusted by the NAIC based on various factors. The fair value of the operating note receivable approximates its carrying value.

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: Primarily all Level 3 investments are valued using the practical expedient and include those investments that cannot be redeemed at NAV at or near the reporting date, or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

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, plant 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.

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 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 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, 2014 or 2013.

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 September 22, 2011, 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 80 percent to 91 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, 2014 and 2013, 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.

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

The amount of direct revenues in excess of direct and indirect expenses arising from the NAIC's Structured Securities project, which includes residential mortgage backed securities and commercial mortgage backed securities, has been allocated for anticipated future work in the area of structured securities and related regulatory services. Given the ongoing nature of this activity, the net assets of this project were combined with the NAIC's net assets on January 1, 2014.

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. The topic also requires that for each under-funded plan, an amount equal to the present value of the next 12 months' expected benefit payments in excess of the fair value of the plan's assets be classified as a current liability. The remainder is classified as a non-current liability.

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, 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.

Reclassifications: Certain prior year amounts have been reclassified to be consistent with current year classifications. These reclassifications had no effect on total net assets.

Note 2. Investments and Investment Income

	2014		2013	
	Cost	**Fair Value**	Cost	Fair Value
Government bonds	**$ 4,147,776**	**$ 4,136,764**	$ 3,793,154	$ 3,887,247
Treasury inflation protected bonds	**2,469,404**	**2,500,130**	3,550,997	3,628,588
Corporate bonds	**9,091,021**	**8,956,029**	11,030,830	10,821,367
Fixed income mutual funds	**19,086,298**	**19,247,663**	18,176,521	18,524,162
Foreign fixed income funds	**6,100,671**	**5,541,670**	5,809,976	5,478,455
International bonds	**491,957**	**477,944**	491,957	493,930
Common stock:				
Industrials	**1,465,686**	**2,778,037**	2,433,922	3,817,014
Consumer discretionary	**1,583,440**	**4,309,391**	1,669,227	4,237,783
Financials	**2,974,159**	**4,116,975**	3,236,080	4,547,921
Information technology	**5,602,651**	**8,485,419**	4,722,747	6,748,983
Other Industries	**12,615,023**	**22,426,192**	12,285,122	19,066,658
Foreign common stock	**928,312**	**1,783,968**	1,130,843	1,980,656
American depository receipts	**811,468**	**1,184,626**	583,544	1,036,336
Foreign equity mutual funds	**6,255,488**	**7,299,639**	5,989,121	7,191,383
Master limited partnerships	**4,561,551**	**5,991,355**	4,650,670	6,318,727
Alternative equity funds	**6,065,000**	**7,013,441**	6,065,000	6,735,441
	$ 84,249,905	**$ 106,249,243**	$ 85,619,711	$ 104,514,651

Total investment income comprises the following:

	2014	2013
Interest and dividend income	**$ 3,082,452**	$ 3,030,828
Net realized gains	**2,826,700**	805,504
Net unrealized gains	**104,401**	9,667,986
	$ 6,013,553	$ 13,504,318

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, 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	-	-
Alternative equity funds	7,013,441	-	-	7,013,441
	$ 106,249,243	$ 83,164,935	$ 16,070,867	$ 7,013,441

Note 2. Investments and Investment Income (Continued)

December 31, 2013	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 3,887,247	$ -	$ 3,887,247	$ -
Treasury inflation protected bonds	3,628,588	-	3,628,588	-
Corporate bonds	10,821,367	-	10,821,367	-
Fixed income mutual funds	18,524,162	18,524,162	-	-
Foreign fixed income funds	5,478,455	5,478,455	-	-
International bonds	493,930	-	493,930	-
Common stock				
Industrials	3,817,014	3,817,014	-	-
Consumer discretionary	4,237,783	4,237,783	-	-
Financials	4,547,921	4,547,921	-	-
Information technology	6,748,983	6,748,983	-	-
Other Industries	19,066,658	19,066,658	-	-
Foreign common stock	1,980,656	1,980,656	-	-
American depository receipts	1,036,336	1,036,336	-	-
Foreign equity mutual funds	7,191,383	7,191,383	-	-
Master limited partnerships	6,318,727	6,318,727	-	-
Alternative equity funds	6,735,441	-	-	6,735,441
	$ 104,514,651	$ 78,948,078	$ 18,831,132	$ 6,735,441

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Alternative Equity Funds
December 31, 2012	$ 5,224,761
Purchases	1,000,000
Net unrealized gains	510,680
December 31, 2013	6,735,441
Net unrealized gains	278,000
December 31, 2014	**$ 7,013,441**

Note 2. Investments and Investment Income (Continued)

	Alternative Equity Funds	
	2014	2013
Total gains (losses), net, included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	**$ 278,000**	$ 510,680

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, 2014 and 2013:

Investment	**Fair Value December 31, 2014**	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Notice Period**
Alternative equity funds (A)	**$ 7,013,441**	**$ -**	**Quarterly**	**95 days**

Investment	Fair Value December 31, 2013	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative equity funds (A)	$ 6,735,441	$ -	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:

	2014	2013
Furniture and equipment	**$ 5,386,147**	$ 4,427,273
Computer and related equipment	**14,827,147**	13,756,669
Computer software	**26,686,801**	23,027,389
Leasehold improvements	**17,003,337**	13,917,500
	63,903,432	55,128,831
Less accumulated depreciation and amortization	**40,953,110**	37,344,164
	$ 22,950,322	$ 17,784,667

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, 2014 and 2013 were $2,677,398 and $2,128,464, respectively.

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 non-current principal balance of this receivable is reported as an Incentive Receivable on the statement of financial position and had a balance of $1,591,761 and $1,770,662 as of December 31, 2014 and 2013, 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 $12,061,424 and $11,889,696 as of December 31, 2014 and 2013, respectively.

Future minimum lease payments at December 31, 2014 are as follows:

Year Ending December 31,	
2015	$ 3,350,314
2016	3,355,163
2017	3,324,201
2018	3,343,106
2019	3,362,485
Thereafter	16,258,391
Total future minimum lease payments	$ 32,993,660

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.

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.

	2014	2013
Projected benefit obligation	**$ (47,845,291)**	$ (45,301,021)
Fair value of plan assets	**44,166,852**	43,871,186
Funded status of plan	**$ (3,678,439)**	$ (1,429,835)
Accrued benefit cost recognized in the statement of financial position	**$ (3,678,439)**	$ (1,429,835)
Accumulated benefit obligation	**$ 47,845,291**	$ 45,301,021
Employer contributions	**$ 1,429,835**	$ -
Plan settlements	**$ (3,014,335)**	$ (4,712,077)
Benefits paid	**$ (494,807)**	$ (472,732)
Service cost	**$ -**	$ -
Interest cost	**1,933,318**	1,754,409
Return on plan assets	**(2,804,090)**	(2,687,668)
Amortization of net loss	**956,408**	1,861,402
Net pension cost	**$ 85,636**	$ 928,143

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

	2014	2013
Discount rate	**3.80%**	4.65%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2014**	December 31, 2013

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

	2014	2013
Discount rate	**4.65%**	3.67%
Salary rate	**N/A**	N/A
Expected return on plan assets	**6.75%**	6.75%
Measurement date	**December 31, 2014**	December 31, 2013

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.

Note 5. Employee Retirement Plans (Continued)

The following is the plan's weighted average asset allocation by asset category as of December 31, 2014 and 2013 (the measurement date of the plan assets):

	2014	2013
Equity securities	**51.22%**	52.31%
Debt securities	**48.78%**	47.69%

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, 2014 are as follows:

Year Ending December 31,	
2015	3,053,692
2016	2,544,357
2017	2,846,749
2018	3,242,340
2019	3,499,103
2020-2024	17,223,632
Total	$ 32,409,873

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 2014 and 2013. The pension expense related to Plan B for the years ended December 31, 2014 and 2013, was $2,475,547 and $2,128,193, respectively.

Note 6. Related Party Transactions

NAIC and 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:

	2014	2013
Revenue:		
Administrative services/license fees:		
Administrative services provided by NAIC	**$ 1,182,812**	$ 1,115,147
License fee	**7,066,442**	6,338,373
System usage fee	**228,435**	218,557
	$ 8,477,689	$ 7,672,077
Services, license fee	**$ 3,139,081**	$ 2,887,405
Accounts receivable from NIPR	**$ 1,028,578**	$ 914,981

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 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 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.

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:

	2014	2013
Revenue:		
Administrative services/license fees,		
Administrative services provided by NAIC	**$ 125,000**	$ 125,000
Services, license fee	**$ 25,000**	$ 25,000
Accounts receivable from IIPRC	**$ 24,725**	$ 37,597
Operating note receivable from IIPRC	**$ 3,085,798**	$ 3,017,206

An additional line of credit in the amount of $150,000 to be used by the IIPRC in fiscal year 2015 will be considered by the NAIC at the NAIC 2015 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, 2014 through March 3, 2015, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.