
2007 ANNUAL REPORT
NAIC
National Association of Insurance Commissioners
STATE REGULATION
BUILT TO LAST

ASSOCIATION PROFILE

The National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands and the Northern Mariana Islands. Formed in 1871, it is the oldest association of state officials.

The NAIC provides its members with national forums for discussing common issues and interests, as well as for working cooperatively on regulatory matters that transcend the boundaries of their own 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 industry.

The NAIC provides a wide range of services to support the work of its committees, the state insurance departments, state and federal officials, and the public. The Association maintains three offices. The Executive Headquarters is located in Kansas City, MO. The two branch offices are the Securities Valuation Office (SVO), located in New York, NY, and the Government Relations Office, located in Washington, D.C.

The NAIC is committed to using state-of-the-art information technology. To this end, the Association maintains extensive database and computer networks linking all insurance departments.

The NAIC offers financial, actuarial, technology, legal, research, market conduct and economic expertise. Its staff maintains database services, researches and prepares standard and custom reports, develops uniform statutory financial statements, monitors federal activity, submits legal briefs, tracks alien insurers, creates publications, conducts educational training programs, and much more.

OUR PEOPLE AND OUR COMMUNITY

The NAIC's success can be attributed to its staff's exceptional service to its members, regulators, the insurance industry and the public. The NAIC provides an array of benefits to its more than 420 employees and is a recognized leader in the areas of work-life balance, flexible benefits, diversity and innovative human resources practices.

These employee benefits allow the NAIC to compete for top talent by creating a friendly workplace equally conducive to hard work.

Employee turnover, excluding unavoidable separations such as retirements, was 7.2 percent in 2007. The NAIC's total employee turnover of only 9.4 percent is well below the national average.

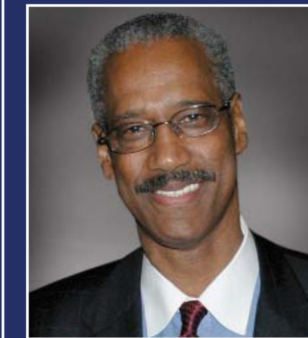
In 2007, the NAIC celebrated a decade of its highly successful infant in the workplace program — welcoming its 75th child to the office. The NAIC also expanded its wellness program to include wellness initiatives designed to promote health in the workplace and at home.

OFFICER'S MESSAGE

As we reflect on the past year, we are proud to see how the many accomplishments made in 2007 have further strengthened the foundation for the NAIC's future.

We now have a strategic plan that will ensure the long-term success of state-based insurance regulation and build on the strength of the NAIC. With this plan as a clear blueprint, we are able to devote our full attention and resources to the most important regulatory issues.

The cornerstone of our new strategic plan is a model law development framework that reserves the drafting of model laws for priority issues that require national, uniform action. In addition, the length of each NAIC national meeting was reduced to three days, streamlining the number of sessions from a record 141 one year ago to 80 at the 2007 Winter National Meeting.

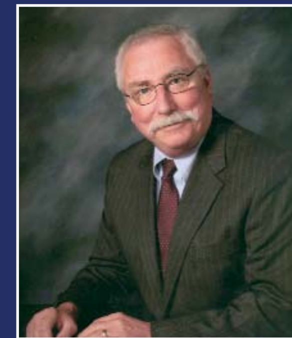


Walter Bell

2007 NAIC President
Alabama Insurance
Commissioner

Sandy Praeger

2007 NAIC President-Elect
Kansas Insurance
Commissioner



Roger Sevigny

2007 NAIC Vice President
New Hampshire Insurance
Commissioner

Jane Cline

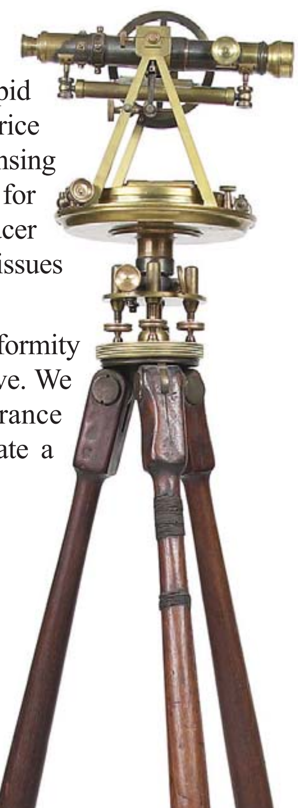
2007 NAIC Secretary-Treasurer
West Virginia Insurance
Commissioner

We undertook some weighty issues that led to improvements we will institutionalize, making our programs — and our association — stronger in the years to come. In particular, we're especially proud of the work done to help protect America's military personnel and their families from predatory life insurance sales.

State insurance regulators — along with state legislatures, the U.S. Congress and the Department of Defense — took swift action to draft and implement the NAIC Military Sales Practices Model Regulation and other protective measures. The NAIC also constructed the Military Sales Online Reporting System (MSORS), a Web-based application for reporting disciplinary actions taken against those soliciting life insurance sales on U.S. military installations.

Our primary mission is to protect the interests of insurance consumers. As such, our ongoing work with the International Association of Insurance Supervisors' (IAIS), as well as the continued growth of the NAIC's International Internship Program, allows us to do this not only at home, but abroad as well. Our international work forms the building blocks of a commitment to helping improve the quality of insurance regulation and consumer protection worldwide.

By its very nature, state-based regulation fosters a spirit of cooperation that has led to several innovative solutions. These include the System for Electronic Rate and Form Filing, State Based Systems, Interstate Insurance Product Regulation Commission and National Insurance Producer Registry (NIPR).



NIPR, a non-profit affiliate of the NAIC, has seen rapid growth, many product enhancements and several price reductions since its inception. Because producer-licensing uniformity continues to be an important strategic focus for the NAIC, a coalition of insurance regulators and producer trade associations was formed in 2007 to identify key issues and pursue additional reforms in this area.

The success of the NAIC's modernization and uniformity initiatives demonstrate that our efforts have been effective. We are confident that the state-based system of insurance regulation will continue to protect consumers and create a competitive marketplace for the insurance industry.

Indeed, state regulation is built to last!

Walter A. Bell
Commissioner, Alabama
Department of Insurance

Linda Hall
Director, Alaska
Division of Insurance

Laloulu Tagoibelagi
Insurance Commissioner,
American Samoa Government

Christina Urias
Director, Arizona
Department of Insurance

Julie Benafield Bowman
Commissioner, Arkansas
Department of Insurance

Steve Poizner
Commissioner, California
Department of Insurance

Marcy Morrison
Commissioner, Colorado
Division of Insurance

Thomas R. Sullivan
Commissioner, Connecticut
Insurance Department

Matthew Denn
Commissioner, Delaware
Department of Insurance

Thomas E. Hampton
Commissioner,
District of Columbia
Department of Insurance,
Securities and Banking

Alex Sink
Chief Financial Officer, Florida
Department of Financial Services

Kevin McCarty
Commissioner, Insurance Regulation,
Florida Department of Financial
Services

John Oxendine
Commissioner, Georgia
Department of Insurance

Artemio Ilagan
Acting Commissioner, Department of
Revenue and Taxation, Insurance
Branch, Government of Guam

J.P. Schmidt
Commissioner, Hawaii
Insurance Division

William W. Deal
Director, Idaho
Department of Insurance

Michael McRaith
Director, Illinois
Division of Insurance

Jim Atterholt
Commissioner, Indiana
Department of Insurance

Susan Voss
Commissioner, Iowa
Insurance Division

Sandy Praeger
Commissioner, Kansas
Insurance Department

Timothy LeDonne
Acting Executive Director,
Kentucky Office of Insurance

James J. Donelon
Commissioner, Louisiana Department
of Insurance

Eric Cioppa
Acting Superintendent, Maine
Bureau of Insurance

Ralph S. Tyler, III
Commissioner, Maryland
Insurance Administration

Nonnie Burnes
Commissioner, Massachusetts
Division of Insurance

Ken Ross
Acting Commissioner, Michigan
Office of Financial
and Insurance Services

Glenn Wilson
Commissioner, Minnesota
Department of Commerce

George Dale
Commissioner, Mississippi
Insurance Department

Doug Ommen
Director, Missouri
Department of Insurance, Financial
Institutions and Professional
Registration

John Morrison
State Auditor, Commissioner
of Insurance and Securities,
Montana Department of Insurance

Ann Frohman
Director, Nebraska
Department of Insurance

Alice A. Molasky-Arman
Commissioner, Nevada
Division of Insurance

Roger A. Sevigny
Commissioner, New Hampshire
Department of Insurance

Steven M. Goldman
Commissioner, New Jersey
Department of Banking
and Insurance

Morris J. Chavez
Superintendent, New Mexico
Public Regulation Commission,
Division of Insurance

Eric Dinallo
Superintendent, New York
Department of Insurance

Jim Long
Commissioner, North Carolina
Department of Insurance

Adam Hamm
Commissioner, North Dakota
Department of Insurance

James A. Santos
Commissioner,
Northern Mariana Islands
Department of Commerce

Mary Jo Hudson
Director, Ohio
Department of Insurance

Kim Holland
Commissioner, Oklahoma
Department of Insurance

Scott Kipper
Insurance Administrator, Oregon
Insurance Division

Joel Ario
Acting Commissioner, Pennsylvania
Insurance Department

Dorelisse Juarbe Jiménez
Commissioner, Puerto Rico
Department of Insurance

Joseph Torti, III
Superintendent, Rhode Island
Insurance Division

Scott H. Richardson
Director, South Carolina
Department of Insurance

Merle D. Scheiber
Director, South Dakota
Division of Insurance

Leslie A. Newman
Commissioner, Tennessee
Department of Commerce
and Insurance

Mike Geeslin
Commissioner, Texas
Department of Insurance

D. Kent Michie
Commissioner, Utah
Department of Insurance

Paulette Thabault
Commissioner, Vermont
Department of Banking, Insurance,
Securities and Healthcare
Administration

Gregory R. Francis
Lieutenant Governor/Commissioner,
Division of Banking and Insurance,
Virgin Islands

Alfred W. Gross
Commissioner, State Corporation
Commission, Bureau of Insurance,
Commonwealth of Virginia

Mike Kreidler
Commissioner, Washington State
Office of the Insurance Commissioner

Jane L. Cline
Commissioner, West Virginia
Offices of Insurance Commissioner

Sean Dilweg
Commissioner, Wisconsin
Office of the Insurance Commissioner

Ken Vines
Commissioner, Wyoming
Department of Insurance

PAST MEMBERS (SERVED DURING 2007)

Elisara T. Togiai
Insurance Commissioner
American Somoa
Government

Susan F. Cogswell
Commissioner, Connecticut
Insurance Department

Andreas J. Jordanou
Commissioner, Department
of Revenue and Taxation,
Insurance Branch,
Government of Guam

Julie Mix McPeak
Executive Director, Kentucky
Office of Insurance

Alessandro Iuppa
Superintendent, Maine
Bureau of Insurance

R. Steven Orr
Commissioner, Maryland
Insurance Administration

Peggy J. Watson
Acting Commissioner, Maryland
Insurance Administration

Julie Bowler
Commissioner, Massachusetts
Division of Insurance

Joseph Murphy
Acting Commissioner,
Massachusetts Division of
Insurance

Linda Watters
Commissioner, Michigan
Office of Financial
and Insurance Services

Tim Wagner
Director, Nebraska
Department of Insurance

Louis Pietroluongo
Acting Superintendent,
New York Department of
Insurance

Jim Poolman
Commissioner, North Dakota
Department of Insurance

Rebecca Ternes
Acting Commissioner, North
Dakota Department of
Insurance

Carl Lundberg
Acting Insurance
Administrator, Oregon
Division of Insurance

Diane Koken
Commissioner, Pennsylvania
Insurance Department

Randy Rohrbaugh
Acting Commissioner,
Pennsylvania Insurance
Department

Eleanor Kitzman
Director, South Carolina
Department of Insurance

Paula Flowers
Commissioner, Tennessee
Department of Commerce
and Insurance

John Crowley
Commissioner, Vermont
Division of Insurance

Vargrave A. Richards
Lieutenant
Governor/Commissioner,
Division of Banking and
Insurance, Virgin Islands

Jorge Gomez
Commissioner, Wisconsin
Office of the Insurance
Commissioner

2007 NAIC EXECUTIVE COMMITTEE

Walter A. Bell, Chair, Alabama

Sandy Praeger, Vice Chair, Kansas

Roger A. Sevigny, Vice President,
New Hampshire

Jane L. Cline, Secretary-Treasurer,
West Virginia

PAST PRESIDENTS

Most Immediate:
Jim Long, North Carolina

NORTHEASTERN ZONE

Joseph Torti, III, Chair, Rhode Island

Thomas E. Hampton, Vice Chair,
District of Columbia

Steven M. Goldman, Secretary,
New Jersey

SOUTHEASTERN ZONE

Kevin McCarty, Chair, Florida

Julie Benafield Bowman, Vice Chair,
Arkansas

Julie Mix McPeak, Secretary, Kentucky

MIDWESTERN ZONE

Kim Holland, Chair, Oklahoma

Sean Dilweg, Vice Chair, Wisconsin

Merle D. Scheiber, Secretary,
South Dakota

WESTERN ZONE

Linda Hall, Chair, Alaska

D. Kent Michie, Vice Chair, Utah

Morris J. Chavez, Secretary,
New Mexico

Dear Members,

Like classic architecture, a regulatory framework that works will stand the test of time. For more than 135 years, state-based insurance regulation has proven time and again that it can meet the challenges of our vibrant, dynamic industry.

The realities of today's complex, integrated financial system mean that insurance regulators must be more nimble than ever before. Changes in the marketplace often demand quick regulatory responses to help ensure the stability of our nation's economy.

From bond insurance to long-term care insurance, we have remained steadfast in our commitment to protect insurance consumers — by ensuring the solvency and proper conduct of the companies we regulate and by providing information that helps every American be a smarter insurance consumer. In fact, the NAIC's award-winning Insure U program has gone a long way toward increasing the nation's insurance knowledge, earning accolades from our peers in association management and leaders at the U.S. Treasury Department.

Providing a credible, unbiased source of insurance information is one of the NAIC's top priorities. Programs, publications, electronic systems and data . . . all of these tools help state insurance regulators achieve their fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner.

This year's annual report outlines the many useful and usable tools we provide to help you accomplish your important goals — most of which would be cost-prohibitive for the states to duplicate on their own. In fact, the amount of state funding required to acquire or access the similar type of services the NAIC provides — often at no extra charge — would far exceed what a state pays in member dues to the organization.

As your association, we are proud of the important work we do and services we provide that help you work together collaboratively and cooperatively. Made stronger by our union, we've built a sustainable network of responsible, responsive regulators who have proven time and again to be effective stewards of this industry. This approach has led to the crafting of many innovative solutions to our nation's complex insurance problems.

In the past year alone, we accomplished several goals that served to further protect insurance consumers and strengthen the foundation for our organization's future. From strategic planning and speed-to-market to international issues and the Interstate Insurance Product Regulation Commission, this annual report outlines 2007's critical milestones and benchmarks.

Together, we will surely continue to build on these successes in the years to come.

Sincerely,

Catherine J. Weatherford

Catherine J. Weatherford
NAIC Executive Vice President & CEO

BUILT TO LAST

"Some Assembly Required." "Batteries Not Included." "Limited Warranty." In our modern society, there is often a fascination with new construction, trendy designs and disposable solutions. Tearing down the old to make way for something shiny and new is occasionally necessary; still, few would dispute that quality craftsmanship stands the test of time.

There is no comparison between a hand-crafted mahogany armoire and a pre-fabricated, particleboard bookshelf. One lasts for decades — even centuries. The other may find its way to a landfill after just a few months or years.

State insurance regulators use time-tested tools to protect consumers and maintain a solvent and competitive marketplace. While new instruments are routinely added to the NAIC's regulatory toolbox, the basics that have been around for more than 135 years preserve a safe foundation. Like a dependable hammer that quickly secures a wobbly board or a handy screwdriver that tightens a loose screw, trusted regulatory tools provide security and stability.

The regulatory toolbox is used in conjunction with blueprints updated to address the ever-changing marketplace. The plans, skills and tools all create a regulatory structure — ***built to last.***

TABLE OF CONTENTS

2007 BENCHMARKS

JOB SITES

4 National Meetings with 6,446 Total Attendees

1,100 Conference Calls (Member Toll-Free Access)

SAFETY MEASURES

15 Funded Consumer Representatives

375 Million Consumer-Directed Media Impressions

- 77 Million Viewer Impressions of Public Service Announcement (PSA): **"Stop. Call. Confirm."**
- 95 TV Markets Showing PSA (English version)
- 43 TV and Radio Stations Airing Spanish-Language PSA

3.6 Million Visits to the NAIC Web Site *(www.naic.org)*

- 45,117 Visits to Consumer Information Source Web Site
- 204,173 Visits to Insure U Web Site (*www.insureuonline.org*)

POWER TOOLS

305,904 Visits to NAIC's Regulator-Only I-SITE Web Site

381,377 Submissions to the System for Electronic Rate and Form Filing (SERFF)

3.8 Million Producer Licensing Records

2,692 Online Fraud Referrals to Members

4,800 Annual and Quarterly Financial Statements

150 NAIC Publications and Data Products

400 Million Data Elements in Financial Data Repository

TASK LIST

181 Uniform Certificate of Authority Applications Transmitted to Members

15,000 Fulfilled NAIC Help Desk Inquiries (Phone/E-mail)

12,000 Fulfilled Statutory Accounting & Financial Reporting Inquiries

5,500 Fulfilled Research Library Inquiries

11 Full Accreditation Reviews

39 Interim Accreditation Reviews

1,019 Fulfilled Queries from National and Trade Media

A REGULATORY FRAMEWORK THAT WORKS

Plan, Design and Build: These three simple concepts form the basis of any successful construction project, whether it's a mantelpiece or a mansion. The same can be said for the successful implementation of the state-based insurance regulatory mission: Protecting consumers in an efficient and cost-effective manner.

The rigorous application of market conduct and solvency standards are the cornerstone of the states' efforts — much like the strict design standards applied by master builders long-ago to create the architectural masterpieces we enjoy to this day.

Likewise, in 2007, the NAIC's membership designed a strategic plan that they could build upon in developing a framework for the organization's future. As in years past, the NAIC supported these membership-directed efforts by providing a variety of tools and services to help the states work together collaboratively and cooperatively.

This type of partnership allows the states to accomplish so much with relatively little financial resources. To better illustrate, this year's annual report includes several "blueprints" that outline the estimated costs a state would incur to build or procure the many types of tools and services the NAIC provides, including:

- Accreditation Program
- Communications and Consumer Outreach
- Education and Training
- Financial and Regulatory Databases
- Government Relations
- Legal Counsel
- Market and Financial Analysis
- Research, Statistics and Regulatory Publications
- Securities Valuation

The scope of the costs might vary based on the size of the state's insurance market, in terms of the number of companies, producers, consumers and overall base of premium volume. A basic assumption is that the larger the state, the greater the functionality and infrastructure needs. The NAIC State Assessment Budget Exhibit was used for purposes of the breakdown of states as "small," "medium" or "large."

NAIC'S REGULATORY TOOLS PROVIDE SAVINGS TO STATES:

Large Premium Volume States	Medium Premium Volume States	Small Premium Volume States
(states with 4.25% or more share of national premium volume)	(states with 2% – 4.25% or more share of national premium volume)	(states with less than 2% share of national premium volume)
Start-up year estimate savings: **$ 22,102,106**	Start-up year estimate savings: **$ 15,386,912**	Start-up year estimate savings: **$ 9,539,771**
Subsequent annual maintenance: **$ 6,557,716**	Subsequent annual maintenance: **$ 5,560,869**	Subsequent annual maintenance: **$ 5,000,927**
Average NAIC member assessment (2008 budget estimate): **$ 136,554**	Average NAIC member assessment (2008 budget estimate): **$ 56,894**	Average NAIC member assessment (2008 budget estimate): **$ 17,046**

PLAN THE WORK. WORK THE PLAN.

Beginning with the two-day Commissioners Conference in February, NAIC President Walter Bell and members began framing the structure and setting the direction for the future of state-based insurance regulation.

The conference broke ground for the NAIC's strategic management process — to be built in the months and years to come — by identifying key issues and developing a detailed strategy with guiding principles and outcomes.

A Blueprint for Consumers

The NAIC continued its commitment to educating the public about insurance and consumer protection issues. The NAIC's education program, Insure U, is aimed at helping consumers get smart about insurance using online curriculum, public service announcements and community presentations. Insure U was honored with a 2007 Associations Advance America (AAA) Award of Excellence in the "Public Education and Information" category. Sponsored by the American Society of Association Executives, the awards are presented year-round to recognize associations that "propel America forward" with innovative projects and initiatives. In addition, the NAIC spotlighted Insure U during presentations to the National Financial Education Network, as well as the U.S. Treasury Department's Financial Literacy and Education Commission.

Launched in 2006, **Insure U** (insureuonline.org) expanded in 2007 to reach Spanish-speakers and small business owners. By year-end, the campaign had reached more than 375 million consumers with unbiased insurance information from the NAIC.

Shelter for Defenders

In 2007, state regulators — working with state legislatures, the U.S. Congress and the Department of Defense — took swift action to draft and implement the NAIC Military Sales Practices Model Regulation and other protective measures. The centerpiece of these efforts was the implementation of the NAIC Military Sales Practices Model Regulation. Ahead of an ambitious Congressional deadline, state regulators

COMMUNICATIONS AND CONSUMER OUTREACH

Few state insurance departments are able devote time solely to communication issues regarding insurance regulation and comprehensive consumer outreach programs. The NAIC Communications Division provides these services in addition to research, writing and media expertise – to support and assist state public information officers. THESE NAIC SERVICES ARE PROVIDED AT NO ADDITIONAL COST TO THE STATES.

Core Professional Services Provided by Communications Staff – Consumer alerts, media relations, speeches and talking points, daily media tracking and clips services	**$ 267,525**
PIO Forum – Annual professional development for state communications staff	(per attendee cost) **$2,500**
Professional Services Applied to Consumer Outreach (Insure U: Get Smart about Insurance) – Account management, national media placement efforts, enhancements to Web site content, development and administration of consumer research, and media event planning	**$289,400**
Program Component Costs – National distribution of announcements and releases, research, launch events, publications and public service announcement (TV)	**$175,025**
Hispanic Program Component Costs – Production, distribution and media relations for Spanish-language press releases and education materials	**$45,575**
COMBINED VALUE FOR NAIC COMMUNICATIONS AND CONSUMER OUTREACH:	**$780,025**

Pricing considers measurements of labor required to execute each function and market prices for same services if provided by a professional vendor.

enacted measures to safeguard the nation's active-duty service members and their families.

In addition to the model regulation, the NAIC developed the Military Sales Online Reporting System (MSORS). This Web-based application provides officials and insurers one place to report disciplinary actions taken against those soliciting life insurance sales on any U.S. military installation. It is anticipated that all 50 states, the District of Columbia and Puerto Rico will adopt the model regulation by mid-2008.

Holocaust Era Insurance Claims Process Concludes

The International Commission on Holocaust Era Insurance Claims (ICHEIC) was established in 1998 to identify, settle and pay individual Holocaust era insurance claims at no cost to claimants.

Formed by the NAIC — in conjunction with several European insurance companies, governments, representatives of several Jewish and Holocaust survivor organizations, and the State of Israel — ICHEIC assisted more than 48,000 Holocaust survivors and their heirs to resolve more than 90,000 claims. For these claimants, the NAIC and ICHEIC's efforts demonstrated that justice delayed was not, finally, justice denied.

The ICHEIC claims process successfully concluded in 2007, with more than $300 million distributed during the organization's nine-year existence.

The organizations' results were memorialized in the legacy document, "Finding Claimants and Paying Them: The Creation and Workings of the International Commission on Holocaust Era Insurance Claims," published in June 2007.

Producer Licensing Uniformity

Producer licensing reform was identified as a key strategic issue for the NAIC in 2007. In June, the NAIC/Industry Producer Licensing Coalition was formed by regulators and national trade organizations, to focus and facilitate producer licensing uniformity initiatives.

With 10 regulators and 12 national trade association representatives, the Coalition began focusing on key issues facing state regulators and industry professionals. The NAIC responded to the primary concerns expressed in coordination with its affiliate, National Insurance Producer Registry (NIPR). Continued modernization efforts will save money, resources and time for regulators and the industry alike.

Consumer Protection: UHC Multistate Settlement

Through the NAIC, 36 state regulators negotiated a settlement with United Healthcare Insurance Company over alleged violations of state law involving claims-payment services. United Healthcare agreed to pay an assessment of up to $20 million to the states. In addition, the company agreed to implement a detailed three-year process-improvement plan addressing their claims-payment system, requiring quarterly reviews and yearly benchmarks.

DESIGN NEW SOLUTIONS FOR COMPLEX PROBLEMS

Reinsurance Modernization

The NAIC, in 2007, proposed to comprehensively modernize reinsurance regulation in the United States. If adopted, these efforts would amend current regulation to allow single-state licensing of U.S. reinsurers while creating the NAIC Reinsurance Supervision Review Department (RSRD).

The RSRD would assist in the evaluation of the extent to which non-U.S. jurisdictions apply regulatory oversight that is "functionally equivalent" to U.S. regulation. Under the proposal, non-U.S. reinsurers domiciled in "functionally equivalent" jurisdictions would be allowed to access the entire U.S. market through a single port of entry state.

Healthcare Solutions for Seniors

In response to widespread abuses in the marketing and sales of Medicare Advantage and Medicare prescription drug plans, the NAIC urged Congress to restore state insurance regulatory authority over the plans participating in these programs. The NAIC also adopted amendments to the Medicare Supplement Insurance Model Regulation to modernize the benefit and benefit-plan designs offered in the Medicare supplement (Medigap) insurance market.

Seeking Solutions, Stability

The NAIC's Property and Casualty Insurance (C) Committee hosted three hearings during fall 2007 to address the availability and affordability of insurance. The first hearing focused on insurance issues in the Gulf Coast region; the second hearing addressed the regulation of catastrophe modeling vendors; the third hearing investigated the use of catastrophe modeling by rating agencies.

Fighting Fraud by Working Together

Along with the federal Risk Management Agency (RMA), the NAIC in 2007 launched an initiative aimed at fighting fraud in the federal crop insurance program. Amid a growing number of complaints and allegations of illegal rebating of federal crop insurance premiums in recent years, state insurance regulators pledged to work closely with RMA to discover and end illegal rebating schemes.

Market Analysis Uniformity

To further achieve uniformity of the states' market regulation processes, the NAIC adopted core competency standards for state market analysis staff. In addition, the NAIC added five to the number of states requiring companies to file Market Conduct Annual Statement (MCAS) data. The MCAS program began in 2000 as a pilot project to help the states meet their need for uniform market-related data. Data-collection standards were developed through the NAIC to increase the program's efficiency and effectiveness.

Expediting Claims, Saving Money

In 2007, Florida completed the successful first use of ClaimNet, a new regulatory tool that provides a more efficient, cost-effective way of administering certain aspects of insurance company receiverships. Florida used ClaimNet for a receivership with more than 1,400 policies. Because processing claims is one of the costliest tasks associated with a receivership or liquidation, using ClaimNet helped Florida save money that could then be used to pay claims.

State Based Systems

State Based Systems (SBS) is a robust Web-based application that automates and streamlines state insurance department regulatory processes. Using SBS, states can reallocate staff and financial resources to other areas of the department, saving time and money. In 2007, seven jurisdictions — Alabama, Iowa, Kansas, Maryland, Missouri, North Carolina and Puerto Rico — selected SBS to meet their back-office processing needs.

BUILD BRIDGES OF UNDERSTANDING

2007 IAIS Annual Conference

In October, the NAIC hosted attendees from more than 100 countries to the 14th Annual Conference of the International Association of Insurance Supervisors (IAIS) with the theme, "A Global Climate for Change: The Future of Insurance Regulation." The conference convened in Florida — the world's eighth-largest insurance market — where attendees discussed, debated and deliberated on important international insurance topics, such as reinsurance, climate change and principles-based supervision.

IAIS Secondee

The NAIC furthered its commitment to international insurance regulatory issues by funding a secondee position to the IAIS. This full-time NAIC employee will be placed on sabbatical to the IAIS in Basel, Switzerland, in order to provide support and enhance IAIS internal administration and transparency, as well as to assist in the development of procedures.





EDUCATION AND TRAINING

NAIC Education and Training Department provides more than 68 courses, both classroom and online courses, on a variety of insurance topics, with 18 programs specifically for insurance regulators. The NAIC also provides on-site training at members' departments on a variety of NAIC handbooks, tools and electronic applications.

Each state averages the use of 25 continuing education, professional development courses through the NAIC annually. The NAIC charges $495 per class (or approximately $12,375). The price for these classes if provided externally is estimated at $2,700 each (or $67,500 per state annually).

$ 55,125
Each state's estimated savings for education and training currently provided by the NAIC

MEETINGS AND EVENTS

The NAIC provides several venues and opportunities for members to come together to discuss common issues, formulate collaborative strategies and policies, and to cooperatively modernize and streamline insurance regulation. The NAIC holds quarterly national meetings and interim meetings with no registration fees for members. The NAIC also provides zone grant funds to minimize travel costs associated with member participation.

Estimate includes EACH state's share with factors for zone grants and funds, professional travel services, scholarship awards and meeting coordination and management. All currently provided by the NAIC.

$ 50,985
Each state's estimated savings for meetings related services now provided by the NAIC

ACCREDITATION PROGRAM

The NAIC Accreditation Program generates savings to the states and the industry, through regulatory reliance placed on accredited states. Without this program of regulatory deference, a number of financial solvency regulatory processes and costs would expand exponentially as states might not rely on each other to regulate licensed companies domiciled in other states. This program has been immensely effective in reducing the duplication of financial regulatory processes by setting the baseline expectation of all states in terms of the baseline financial solvency regulatory processes in place at each state that earns NAIC accreditation. Forty-nine states and the District of Columbia are currently accredited.

Estimated annual savings to EACH state for full accreditation and pre-accreditation review (both occur each five years — cost annualized for illustration) and does not consider all staff and professional service requirements.

$ 14,000

Legislative Liaison Committee

To further improve dialogue with state lawmakers, in 2007 the NAIC created the NAIC/Legislator Liaison Committee. During its first two meetings, the Committee discussed many important topics — such as optional federal charter legislation and life insurance sales to military personnel — and enjoyed participation from several legislators. In 2008, the Committee will focus on increasing state participation in the Interstate Insurance Product Regulation Commission and promoting regulatory uniformity in producer licensing.

Consumer Liaison Committee

In 2007, the NAIC sponsored 15 funded consumer representatives. Nine of the funded consumer representatives participated in the program in 2006, while six were new to the program last year. In addition, three unfunded consumer representatives participated on the committee. The NAIC Consumer Liaison Program provides interaction between NAIC members, the insurance industry and interested parties.

International Internship Program

During 2007, 16 interns from six countries participated in the NAIC's International Internship Program. The seven-week program kicked off with orientation at the NAIC's Executive Headquarters in Kansas City, followed by five weeks in a host state for more specialized training. The program concluded with attendance at a quarterly national meeting and closing ceremonies in Washington, D.C.

The NAIC developed the International Internship Program in 2004 to advance working relations with foreign markets, emphasizing the exchange of regulatory techniques and technology. Since the program's inception, 16 state insurance departments have hosted 39 interns from 13 different countries.

Following the Path to Success

The NAIC awarded its first professional designation in 2007 to Kathy Horsley of the Kentucky Office of Insurance. Horsley earned the Associate Professional of Insurance Regulation (APIR) designation through the NAIC's Insurance Regulator Professional Designation Program. Launched in October 2006, the NAIC Designation Program provides regulators with a structured professional development path for regulators at all levels of experience.

STATE REGULATION: BUILT TO LAST

Every stage of construction — from planning, to designing, to building — plays an important part in the quality of the final structure. Its strength and stability is a testament to each team member's commitment to the structure's long-term viability.

More than 135 years ago, the first state insurance regulators joined together, formed the NAIC and built a regulatory framework that has stood the test of time. Today's insurance regulators are resilient and responsive . . . making sure to preserve the basic principles and tools of the trade, yet remaining flexible enough to adapt and change over time in response to ever-changing market conditions.

INSURANCE PRODUCTS AND SERVICES

The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of state insurance regulators by providing detailed and comprehensive insurance information through more than 150 different publications and data products — from statistical reports and white papers to regulatory handbooks and consumer guides — available to regulators free-of-charge.

COSTS FOR PUBLICATIONS CURRENTLY PRODUCED AND MAINTAINED BY NAIC

Cost to NAIC for publications made available *to all states.*

EACH state's estimated cost
Large Premium Volume State
(4.25% or more national share)
To produce and maintain estimated number of required quanitities

EACH state's estimated cost
Medium Premium Volume State
(2% – 4.25% national share)
To produce and maintain estimated number of required quanitities

EACH state's estimated cost
Small Premium Volume State
(2% or less national share)
To produce and maintain estimated number of required quanitities

Factors for first year start-up costs and infrastructure:
- Order tracking software
- Online delivery system
- First-year content creation
- First-year publications production
- Customer service staff
- Capital infrastructure purchases

Factors for continuing annual costs and infrastructure:
- Content creation
- Publications production
- Customer service staff
- Order tracking/billing systems
- Staff and infrastructure

	First year start-up	Continuing annual
Cost to NAIC	$ 3,791,168	$ 3,345,750
Large Premium Volume State	**$ 1,983,789**	**$ 1,538,371**
Medium Premium Volume State	**$ 1,762,656**	**$ 1,394,384**
Small Premium Volume State	**$ 1,599,544**	**$ 1,340,725**

Cost scope varies by size of the state's insurance market (number of companies, producers, consumers and overall base of premium volume). It is assumed that large premium volume states (4.25% share of nationwide premium volume or more) would need to maintain approximately 8% of the product volume maintained by the NAIC.

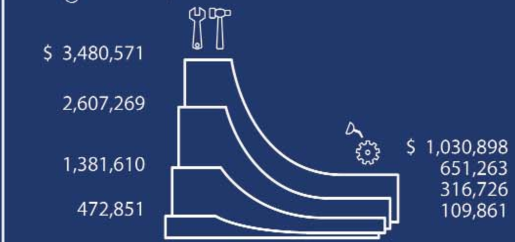
It is assumed that medium premium value states (2% – 4.25% share of nationwide premium volume) would require less product volume (about 2% of that maintained by the NAIC) and infrastructure.

The assumption for small states (2% or less of premium volume) would produce and maintain volumes equaling about 1% of the volumes maintained by the NAIC.

COMPREHENSIVE INFORMATION TECHNOLOGY SYSTEMS

Currently produced and maintained through the NAIC

System for Electronic Rate and Form Filing (SERFF)



Rate and form submittal system

Web-based, central access for states, D.C. and Puerto Rico

Used by 3,000 companies to seek approval of 270,000 filings in 2006

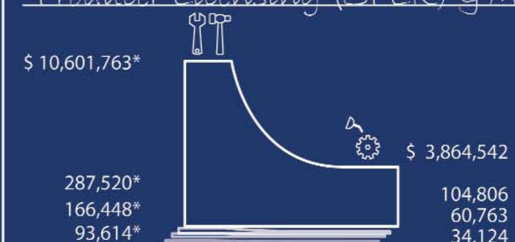
Securities Valuation Office (SVO)

Quality assessment and pricing of insurers' securities

Insurers' investment portfolio analysis

Requires highly trained financial analysis professionals, high levels of data access and comprehensive tools

Producer Licensing (SPLR) & Market Reg Systems



* Requires cooperative development of single system. Costs reflect *each* state's estimated share.

Market regulation through insurer and producer licensing

Single-point Web-based access for all states

Resident/non-resident application, renewal, appointment termination, address or status changes, etc.

Complaints & Regulatory action

Financial Data Repository (FDR)

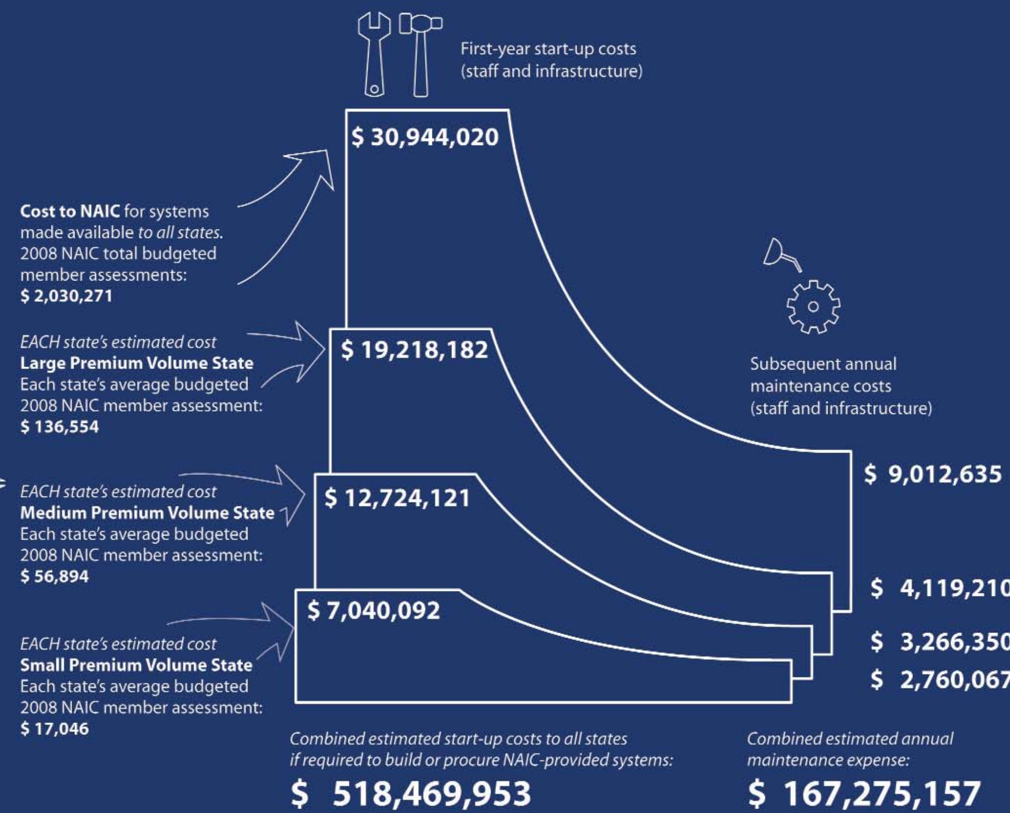
Statutory financial statement data is available to regulators within 24 hours of receipt

Standardized through accounting manual, statement blanks and instructions

Receives, stores and validates a minimum of 45,000 annual statement data elements per insurer

Built-in analysis tools, reports and ad hoc querying support solvency regulation

Total start-up and maintenance cost for systems currently employed by NAIC to support state regulatory functions compared to costs to EACH STATE for comparable independent systems



Cost scope varies by size of the state's insurance market (i.e. number of companies, producers, consumers and overall base of premium volume). It is assumed that large premium volume states (4.25% share of nationwide premium volume or more) would require the same functionality and continuity currently employed by the NAIC, with slightly less robust infrastructure.

It is assumed that medium premium value states (2% – 4.25% share of nationwide premium volume) would require somewhat less functionality and infrastructure support.

The assumption for small states (2% or less of premium volume) would choose much smaller scale systems than currently provided by the NAIC.

Mayer Hoffman McCann P.C.
An Independent CPA Firm

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INDEPENDENT AUDITOR'S REPORT

Honorable Members

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

We have audited the accompanying statement of financial position of the National Association of Insurance Commissioners (NAIC) as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the NAIC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NAIC as of December 31, 2006 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 28, 2007.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NAIC of December 31, 2007, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Leawood, Kansas
March 12, 2008

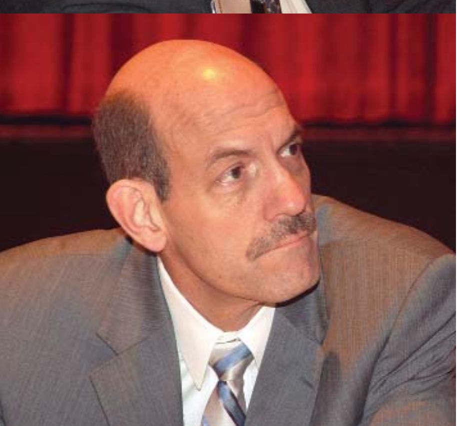
Mayer Hoffman McCann P.C.

STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006

ASSETS	**2007**	**2006**
CURRENT ASSETS		
Cash and cash equivalents	$ 7,310,777	$ 6,852,156
Accounts receivable, less allowance for doubtful accounts; 2007 - $2,909,020, 2006 - $2,764,901	5,986,199	6,745,153
Current portion of note receivable	46,494	—
Interest receivable	217,090	221,686
Prepaid expenses	1,851,770	1,431,320
Inventories	266,343	209,715
Investments	43,595,452	42,585,302
TOTAL CURRENT ASSETS	59,274,125	58,045,332
NOTE RECEIVABLE, less current portion	503,506	—
PROPERTY AND EQUIPMENT, NET	13,136,060	11,479,562
TOTAL ASSETS	**$ 72,913,691**	**$ 69,524,894**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 1,557,915	$ 1,500,726
Accrued expenses and other current liabilities	5,437,905	5,984,754
Deferred revenue	4,338,620	3,386,934
TOTAL CURRENT LIABILITIES	11,334,440	10,872,414
NON-CURRENT LIABILITIES		
Deferred pension liability	1,971,968	—
TOTAL LIABILITIES	13,306,408	10,872,414
UNRESTRICTED NET ASSETS		
Allocated	58,685,972	57,770,373
Unallocated	921,311	882,107
TOTAL UNRESTRICTED NET ASSETS	59,607,283	58,652,480
TOTAL LIABILITIES AND NET ASSETS	**$ 72,913,691**	**$ 69,524,894**

See Notes to Financial Statements.



STATEMENTS OF ACTIVITIES

Years Ended December 31, 2007 and 2006

	2007	2006
REVENUES		
Database fees	$ 24,861,611	$ 23,916,180
Publications and subscriptions	15,792,805	14,895,370
Services	12,520,594	10,691,710
Administrative services/license fees	6,301,493	5,676,642
Investment income	4,699,067	3,546,704
National meeting registration fees	2,769,780	2,103,200
State assessments	2,015,609	1,968,635
Education and training	996,180	988,992
Other	325,831	394,951
TOTAL REVENUES	**70,282,970**	**64,182,384**
EXPENSES		
Salaries	29,359,419	26,777,329
Temporary personnel	513,352	536,497
Employee benefits	8,740,521	8,314,902
Professional fees	5,576,116	4,448,679
Travel	2,819,004	2,697,158
Repairs and maintenance	7,364,293	6,847,679
Depreciation and amortization	4,609,895	3,913,124
Insurance	455,898	421,585
Office supplies	1,727,618	1,883,455
Printing expense	208,585	226,484
Meetings and functions	1,585,340	1,039,824
Education and training	1,328,783	1,327,312
Other	305,551	820,395
Bad debt expense (recovery)	160,280	(48,228)
TOTAL EXPENSES	**64,754,655**	**59,206,195**
CHANGES IN NET ASSETS BEFORE EFFECT OF FAS 158 ADOPTION	5,528,315	4,976,189
NET EFFECT OF FAS 158 ADOPTION	(4,573,512)	(677,226)
CHANGES IN NET ASSETS	954,803	4,298,963
NET ASSETS, BEGINNING OF YEAR	58,652,480	54,353,517
NET ASSETS, END OF YEAR	**$ 59,607,283**	**$ 58,652,480**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Changes in net assets	$ 954,803	$ 4,298,963
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation and amortization	4,609,895	3,913,124
Net realized and unrealized gains on investments	(2,571,706)	(2,095,604)
Gain on sale of property and equipment	(15,551)	(6,709)
Changes in operating assets and liabilities:		
Accounts receivable, net	758,954	766,698
Note receivable	(550,000)	—
Interest receivable	4,596	(50,053)
Prepaid expenses	(420,450)	40,855
Inventories	(56,628)	(29,332)
Accounts payable	57,189	161,571
Accrued expenses and other current liabilities	(546,849)	390,753
Deferred revenue	951,686	453,609
Deferred pension liability	1,971,968	—
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,147,907	7,843,875
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,266,393)	(3,573,481)
Proceeds from disposition of property and equipment	15,551	6,709
Purchase of Investments	(26,716,262)	(21,218,779)
Proceeds from disposition of investments	28,277,818	17,320,640
NET CASH FLOWS FROM INVESTING ACTIVITIES	(4,689,286)	(7,464,911)
CHANGE IN CASH AND CASH EQUIVALENTS	458,621	378,964
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,852,156	6,473,192
Cash and Cash Equivalents, End of Year	**$ 7,310,777**	**$ 6,852,156**

See Notes to Financial Statements.

Note 1: **Summary of Significant Accounting Policies**

Nature of operations — The National Association of Insurance Commissioners (the 'NAIC') is an organization of and for the insurance regulatory officials of the 50 states, the District of Columbia and five United States territories (the 'Members'). The NAIC's significant program is the exchange of ideas and formulation of uniform policy where appropriate.

Cash and cash equivalents — The NAIC considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007 and 2006, cash equivalents consisted primarily of money market funds and discount notes.

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.

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 and investment income — Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at fair value. Investment income includes dividends, interest and realized and unrealized gains and losses on investments carried at fair value.

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

Description	Estimated Useful Lives
Furniture and equipment	5 years
Computer and related equipment	3 years
Computer software	3 - 10 years
Leasehold improvements	12 years

Use 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.

Revenue recognition — Revenue is recognized as follows:

- Database fee revenue is recognized upon the filing of insurance companies' annual statements.
- Publications and subscriptions revenue is recognized when title passes to the customer.
- Services revenue is recognized upon billing, when the service has been completed.
- Revenue from fees for state assessments apply to 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.

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.

Net assets — The NAIC's target operating reserve is based on a liquid reserve of 80%, as defined as total net assets, less net property and equipment, as a percentage of the future year's consolidated operating expenses. As of December 31, 2007 and 2006, net assets are fully allocated, with the exception of an amount maintained as unallocated equal to 1.5% of the next year's projected consolidated net assets. The unallocated balance will be used to fund priority initiatives and technology projects that may arise in the next year.

Reclassifications — Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation.

Pension plan — The NAIC has adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement No. 87, 88, 106, and 132 (R)" ("SFAS No. 158"), as of December 31, 2007. SFAS No. 158 changes statement of financial position accounting and 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 Association has reported on the statement of financial position under SFAS No. 158 is measured as the difference between the fair market value of plan assets and the benefit obligation. SFAS No. 158 requires that previously disclosed but unrecognized gains/losses, prior service cost/credits, and transition assets/obligations be recognized at adoption as a component of unrestricted net assets. Previously, these amounts were disclosed in the notes to the financial statements. The required transition method of adoption for SFAS No. 158 is prospective. Prior period statements are not restated. SFAS No. 158 also requires that for each under-funded plan, an amount equal to the next 12 months' expected benefit payments in excess of the plan's current assets be classified as a current liability. The remainder is classified as a non-current liability.

Note 2: **Investments and Investment Income**

Investments at December 31 consisted of the following:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U.S. Government and agency securities	$ 21,865,258	$ 22,550,181	$ 18,884,699	$ 18,744,176
Corporate bonds and fixed income securities	3,534,196	3,613,564	5,808,642	5,840,085
Common stocks and equity mutual funds	14,184,697	17,431,707	14,313,843	18,001,041
	$ 39,584,151	**$ 43,595,452**	**$ 39,007,184**	**$ 42,585,302**

Total investment income is comprised of the following:

	2007	2006
Interest and dividend income	$ 2,127,361	$ 1,451,100
Net realized gains on investments	2,138,523	744,584
Net unrealized gains/(losses) on long-term investments	433,183	1,351,020
	$ 4,699,067	**$ 3,546,704**

Note 3: **Property and Equipment**

Property and equipment at December 31 consisted of the following:

	2007	2006
Furniture and equipment	$ 4,697,656	$ 4,925,717
Computer and related equipment	14,287,188	12,309,538
Computer software	16,833,383	14,452,099
Leasehold improvements	3,802,184	3,455,331
	39,620,411	35,142,685
Less accumulated depreciation and amortization	26,484,351	23,663,123
	$ 13,136,060	**$ 11,479,562**

Note 4: **Operating Leases**

The NAIC leases its office space in Kansas City, New York and Washington, D.C. under noncancelable 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 noncancelable operating leases, which expire at various dates through 2014. 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, 2007 and 2006 were $4,236,728 and $4,411,100, respectively.

Future minimum lease payments at December 31, 2007, were:

Year Ending December 31,	Amount
2008	$ 4,470,182
2009	4,791,223
2010	4,852,966
2011	4,863,198
2012	1,245,679
Later Years	1,309,882
Total	**$ 21,533,130**

Note 5: **Employee Retirement Plans**

The NAIC has a noncontributory defined benefit plan (Plan A) covering all employees with a hire date prior to January 1, 2000. The benefits are based on years of service and the employee's compensation for the five consecutive years of the ten latest years of employment that give the highest average.

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

	2007	2006
Projected benefit obligation	$ (27,326,697)	$ (27,609,590)
Fair value of plan assets	25,354,729	20,545,819
Funded status of plan	$ (1,971,968)	$ (7,063,771)
Accrued benefit cost recognized in the statement of financial position	$ (1,971,968)	$ (598,547)
Accumulated benefit obligation	$ 23,576,825	$ 21,144,366
Employer contributions	$ 5,350,000	$ 3,000,000
Benefits paid	$ 2,322,358	$ 3,519,991
Service cost	$ 1,450,426	$ 1,690,564
Interest cost	1,765,611	1,794,263
Return on plan assets	(1,638,729)	(1,519,085)
Amortization of net (gain)loss	572,601	547,979
NET PENSION COST	**$ 2,149,909**	**$ 2,513,721**

The actuarial assumptions used in computing the pension costs are as follows:

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

	2007	2006
Discount rate	6.25%	6.25%
Salary increase	5.36%	5.36%
Expected return on plan assets	7.50%	8.00%

The following is the plan's weighted average asset allocation by asset category as of December 31, 2007 and 2006 (the measurement date of the plan assets):

	2007	2006
Equity securities	41.00%	41.00%
Debt securities	59.00%	59.00%

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.

The benefits expected to be paid to participants over the next 10 years which reflect expected future services as appropriate, as of December 31, 2007 are as follows:

2008	$ 1,877,885
2009	1,616,203
2010	2,113,467
2011	2,012,905
2012	2,633,613
2013 – 2017	11,420,856
TOTAL	**$ 21,674,929**

The NAIC's best estimate of contributions to be paid during 2008 is $1,600,000.

The NAIC provides a supplemental defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Internal Administration (EX1) Subcommittee determines the contribution for the next year. In 2007 and 2006, the NAIC matched up to 3.5% of compensation of employees who contributed to Plan B and contributed 2% of all employees' annual compensation. The pension expense related to Plan B for the years ended December 31, 2007 and 2006 was $1,253,865 and $1,148,117, respectively.

Note 6: **Related Party Transactions**

Effective January 1, 2006, the NAIC entered into a service agreement with the National Insurance Producer Registry (the NIPR), an affiliated entity, whereby the NAIC provides certain administrative services to the NIPR. The NAIC receives 30% of certain NIPR revenues, which represents a license fee for NIPR to use the NAIC's producer data. In addition, the NAIC receives from NIPR, an administrative fee of $1,000,000 for services, facilities, and equipment provided by the NAIC. The NAIC maintains and incurs the costs related to the hardware and software infrastructure that support both the NAIC and NIPR. The NAIC allocates a share of such costs to the NIPR.

The total amount charged during the year and amounts owed at year-end for NIPR are as follows:

	2007	2006
Administrative services provided by NAIC	$ 6,361,855	$ 5,767,634
Rental and maintenance	$ 178,674	$ 211,899
Amounts payable to NAIC	$ 605,332	$ 1,237,652

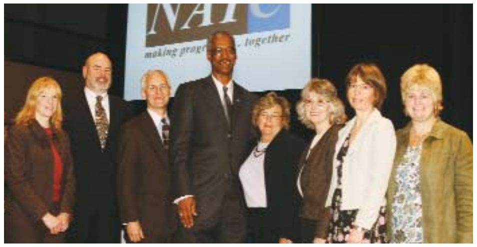
Subsequent to December 31, 2007, an amendment to the services agreement between NAIC and NIPR has been negotiated. Effective April 2008, the infrastructure cost sharing arrangement will be transitioned to a per transaction usage fee.

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 receives an administrative fee of $100,000 for the first year of the agreement. In the second year, the fee will increase to $125,000. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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

	2007	2006
Administrative services provided by NAIC	$ 58,334	$ —
Amounts payable to NAIC	$ 14,440	$ 166,618
Accrued interest on note payable to NAIC	$ 13,619	$ —
Note payable to the NAIC	$ 550,000	$ —

An additional unsecured line of credit in the amount of $850,000 was approved by the NAIC in December 2007 to be used by IIPRC.



Alaska Division of Insurance

Colorado Division of Insurance

Iowa Insurance Division

Minnesota Department of Commerce

Missouri Department of Insurance, Financial Institutions and Professional Registration

Nebraska Department of Insurance

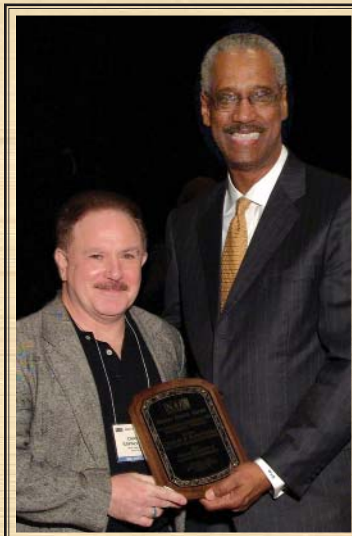
Nevada Division of Insurance

North Dakota Department of Insurance

Texas Department of Insurance

Virginia State Corporation Commission, Bureau of Insurance

West Virginia Offices of the Insurance Commissioner



Robert Dineen Award

for Outstanding Service and Contribution to the State Regulation of Insurance

Charles Rapacciuolo

Assistant Deputy Superintendent, New York State Insurance Department

Esprit de Corps Award

Defined as "a common spirit of comradeship, enthusiasm and devotion to a cause among members of a group," this award recognizes recipient's spirit of cooperation and outstanding service to the NAIC and its Members.

Nebraska Department of Insurance

Ann Frohmann, Director

Director Tim Wagner was known for his outgoing personality and keen mind. A strong champion of state modernization efforts, his important insight and friendly presence inspired his many close friends, fellow regulators and NAIC staff.

The insurance community will greatly miss his spirit and dedication.

In Memoriam

L. Tim Wagner

1942 - 2007

Director, Nebraska Department of Insurance

1999 - 2007

The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner, consistent with the wishes of its members:

Protect the public interest;

Promote competitive markets;

Facilitate the fair and equitable treatment of insurance consumers;

Promote the reliability, solvency and financial solidity of insurance institutions;

Support and improve state regulation of insurance.

NAIC ORGANIZATIONAL CHART

Catherine J. Weatherford
Executive Vice President & Chief Executive Officer

Andrew Beal
Deputy Executive Vice President & Chief Legal Officer

Brady Kelley
Chief Financial & Strategic Business Officer

Trish Schoettger
Director
Member Services & Initiatives
Kansas City

Kay Noonan
General Counsel
Kansas City

Eric Nordman
Director
Research
Kansas City

Brett Palmer
Managing Director
Government Relations
Washington, D.C.

Chris Evangel
Managing Director
Securities Valuation Office
New York

Todd Sells
Director
Financial Regulatory Services
Kansas City

Julie Fritz
Director
Insurance Products & Services
Kansas City

Denise Matthews
Director
Information Systems
Kansas City

Tim Mullen
Director
Market Regulation
Kansas City

Scott Holeman
Director
Communications
Kansas City

Brent Roper
Director
Human Resources & Internal Services
Kansas City

2007 ANNUAL REPORT

NAIC

National Association of Insurance Commissioners

STATE REGULATION BUILT TO LAST

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