

Role with State Insurance Regulators and IRS Reporting Requirements

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A report to the Chairman of the Committee on Ways and Means, House of Representatives.

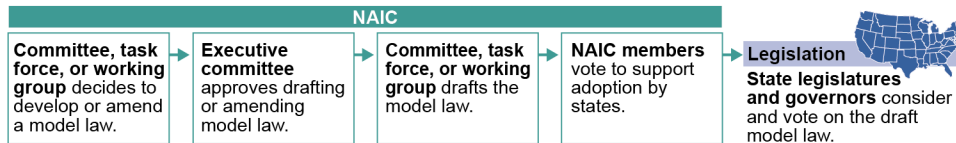
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What GAO Found

The National Association of Insurance Commissioners (NAIC) supports its members—state insurance regulators—in their regulation of insurance companies by

- providing a forum (such as committees, task forces, and working groups) to develop standards for insurance companies through model laws that states may consider enacting (see figure);
- facilitating standardization in monitoring the financial solvency of insurance companies across states through its accreditation program; and
- managing centralized data systems to help states carry out oversight and share information.

NAIC’s Process for Developing Model Laws



Source: GAO icons and analysis of National Association of Insurance Commissioners (NAIC) documents. | GAO-26-107956

Since 1955, NAIC has been excepted from filing Form 990, a type of annual information return that tax-exempt organizations file with the Internal Revenue Service (IRS) unless an exception applies. According to NAIC documents, IRS granted the exception after determining that NAIC meets the exception as a wholly-owned instrumentality of the states, specifically as an organization that carries out functions on behalf of state governments. IRS reaffirmed this exception in 1999 when NAIC reorganized, became a corporation, and reapplied for federal tax-exempt status and a Form 990 filing exception, according to NAIC documentation.

GAO’s review of publicly available NAIC documents found that they included governance and financial information generally comparable to that in Form 990. For example, NAIC reported revenues and expenses in its annual budget and audited financial statements, which its executive committee reviews. NAIC also described its activities and membership structure in annual reports and bylaws.

In some cases, the information NAIC publicly reports is less granular than what Form 990 collects. For example, NAIC’s conflict-of-interest policy describes disclosure requirements for members but not for key employees, such as its chief executive officer. In addition, NAIC did not publicly report compensation for key employees. NAIC’s publicly available information also did not include certain items collected in Form 990, such as information related to fundraising and lobbying.

Why GAO Did This Study

The U.S. insurance industry is primarily regulated by states through state insurance regulators. NAIC is a private, tax-exempt organization whose membership comprises state insurance regulators.

GAO was asked to review NAIC’s role and its history of IRS filing requirements. This report describes NAIC’s role in the state regulation of insurance and reviews and compares IRS’s applicable filing requirements with what NAIC publicly reports.

GAO reviewed NAIC documents, including annual reports, budgets, and bylaws, and compared NAIC governance and financial information with that required by IRS Form 990. GAO also interviewed representatives of NAIC and IRS. In addition, GAO interviewed a nongeneralizable sample of five state insurance regulators (selected to reflect a range of agency sizes, geographic locations, and other factors) and six stakeholder groups (selected to reflect the perspectives of insurers, state legislators, and consumers).