## UNITEDHEALTH GROUP®

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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 2012-260, Proposed Accounting Standards Update, Financial Instruments—Credit Losses (Subtopic 825-15)

Dear Ms. Cosper,

Thank you for the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)* (the "Proposed Update").

UnitedHealth Group Incorporated (the "Company", "we", or "our") is a diversified health and well-being company whose mission is to help people live healthier lives and to help make the healthcare system work better for everyone. We are helping individuals access quality care at an affordable cost; simplifying health care administration and delivery; strengthening the physician/patient relationship; promoting evidence-based care; and empowering physicians, health care professionals, consumers, employers and other participants in the health system with actionable data to make better, more informed decisions. Revenues for the year ended December 31, 2012 were approximately \$111 billion.

Through our diversified family of businesses, we leverage core competencies in advanced, enabling technology; health care data, information and intelligence; and clinical care management and coordination to help meet the demands of the health system. These core competencies are deployed within our two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

UnitedHealthcare provides network-based health care benefits for a full spectrum of customers in the health benefits market. UnitedHealthcare serves employers ranging from sole proprietorships to large, multi-site and national and international organizations, as well as students and individuals; delivers health and well-being benefits to Medicare beneficiaries and retirees; manages health care benefit programs on behalf of state Medicaid and community programs and their participants and serves the nation's active and retired military and their families through the TRICARE program. We offer both risk-based and feebased health care benefit products. Our risk-based products are offered through licensed insurance companies and health maintenance organizations (collectively referred to herein as "regulated entities").

Our regulated entities are required to maintain specified levels of statutory capital as defined by each jurisdiction, and investments are one of the primary tools by which those capital levels are maintained. Our investments are principally classified as available-for-sale and are recorded at fair value. As of March

31, 2013, we had total investments with a carrying value of \$21 billion, primarily in marketable debt securities.

Optum is a health services business serving the broad health care marketplace, including payers, care providers, employers, government, life sciences companies and consumers. Using advanced data, analytics and technology, Optum helps improve overall health system performance: optimizing care quality, reducing costs and improving the consumer experience and care provider performance. Optum includes the operations of Optum Bank, a Utah-chartered industrial bank (the "Bank"). The Bank, similar to our regulated insurance entities, is required to maintain certain statutory capital levels. As of December 31, 2012, the Bank had approximately \$1.8 billion in customer assets under management.

The Proposed Update would have a significant impact on the Company given its regulated entities, Bank, sizable investment portfolio and corresponding number of investment positions. The remainder of this letter provides our views on key aspects of the Proposed Update.

We do not believe the Proposed Update achieves the Financial Accounting Standards Board's ("Board") objectives of reducing complexity in the accounting for financial instruments and increasing the decision-usefulness of the information reported about those instruments.

The Board's proposal to require the immediate recognition of current estimates of expected credit losses, by design, introduces more judgment and more entity-specific assumptions into the accounting framework for financial instruments. The current U.S. GAAP threshold that recognizes credit losses only when it is probable that they have been incurred is inherently tied to observable triggering events that can be evaluated and quantified in a relatively objective manner. Additionally, current U.S. GAAP does not require extensive analysis for debt and equity securities with fair values greater than amortized cost. In contrast, the Proposed Update interjects complexity into the analysis by requiring companies to model various hypothetical loss scenarios when its current expected credit losses ("CECL") are not considered probable, or even reasonable, in order to arrive at a probability-weighted estimate that could foreseeably differ from management's best estimate.

We agree that, in theory, the proposed practical expedient could achieve the Board's objective to reduce unnecessary complexity. However, we believe that in practice the ability to utilize the proposed practical expedient will be unnecessarily limited given that the proposal would only exempt an entity from CECL modeling when **both**: a) the fair value of the **individual financial asset** is greater than (or equal to) the amortized cost basis of the financial asset, and b) expected credit losses on the individual financial asset are **insignificant**. We therefore recommend the practical expedient should be available if **either** of the proposed criteria are met rather than **both** – see the "Recommended Practical Expedient Alternative" section below for additional discussion. Otherwise, we believe that an entity's subjective determination of "insignificant" expected losses, without more clear and actionable objective guidance, will likely result in this criterion being a relatively high threshold, with the effort required to document and support both criteria (a) and (b) for each individual financial asset possibly proving to be complex and burdensome.

We do acknowledge that certain aspects of the Proposed Update – most notably the Board's effort to eliminate a wide range of existing guidance and replace it with a single, principles-based standard – take positive steps forward in reducing complexity. However, we believe that the benefit of that improvement will unfortunately be diluted by the new complexity introduced by the CECL model for all types of entities and financial instruments. The requirement to model and probability-weight potential loss scenarios for all financial instruments would add significant judgment and entity-specific assumptions to reported net income and would likely result in the recognition of credit losses for amounts that will rarely, if ever, reflect the actual credit losses on the underlying securities. We believe this resulting financial

information would be less relevant, more complex, less intuitive, and potentially less comparable across entities for users of our and other similarly situated entities' financial statements.

## Operationalizing the Proposed Update will be burdensome and costly.

The CECL model, as proposed, will be impractical to apply and we have significant concerns about its operability and resulting cost/benefit proposition. In addition to entities' existing financial models, the Proposed Update would require creation of at least one additional model (a credit loss or "worst case" scenario) for each financial asset along with new assumptions that must be evaluated and refreshed at each reporting period. Furthermore, the requirement to estimate losses over the entire life of each instrument will expand and complicate the assumptions that are built into all of these models. Long-term estimates will be judgmental and difficult to quantitatively support.

As of March 31, 2013, the weighted average credit rating of our investment portfolio was "AA" and the total other-than-temporary impairments for each of the last three years ended December 31, 2012 was less than 0.2% of total investments. Given our high credit quality investment portfolio, we do not expect significant credit losses. Despite the expectation of insignificant losses, with more than 7,000 debt securities having unique CUSIPs, the proposed CECL model would likely require significant new expenditures on personnel, technology, and/or vendor-provided modeling services.

We believe that auditors and regulators will perceive a greater risk of misstatement in financial reporting around financial instruments and will increase the time and effort spent in this area for all entities because of the Proposed Update's introduction of subjective, judgmental, entity-specific estimates that will directly impact reported net income. We would likely need to devote significant new company resources to support and document financial models and assumptions that feed into CECL estimates as well as devote a great deal of time to responding to audit questions and requests – all in order to support entity-specific expected credit loss information that will likely be insignificant and not particularly useful to users of financial statements.

Current fair value measurements for which the Company is already using probability-weighted scenario modeling (e.g., contingent consideration in business combinations) have already hinted at the difficulties that will likely arise as auditors seek extensive support for assumptions that are highly judgmental, especially with regard to the probabilities assigned to different scenarios. When an entity believes that the probability of a significant credit loss scenario is 1%, but an auditor believes that 2% is more reasonable, resolving the disagreement will be difficult given that these are simply predictions of future events. In addition to requiring entities to engage modeling and valuation specialists to make its own estimates, the same entities will be subject to higher audit fees as the audit teams engage similar specialists for their work.

These operational challenges and costs are not significantly relieved by the proposed practical expedient, due to its narrow scope and potential difficulties in proving "insignificance." Entities may expend significant resources attempting to utilize the practical expedient only to end up failing and having to expend further resources modeling and supporting CECL estimates.

# The Proposed Update does not significantly increase the decision-usefulness of financial information yet could reduce comparability among entities or highly similar securities.

We believe that users of financial statements are best served when reported financial information is comparable from entity-to-entity. Unfortunately, we believe that the Proposed Update does not promote

consistent accounting and reporting. The previously described difficulties in achieving the practical expedient at the individual instrument level could cause certain securities to fluctuate in and out of the requirement to record CECL adjustments through net income, introducing earnings volatility that may not align across companies, industries, and similar assets. Further, under the Proposed Update, two highly similar securities with strong credit ratings and insignificant expected credit losses would be accounted for differently if one has fair value exceeding cost and one has cost exceeding fair values. The only difference between the two securities could be the prevailing interest rates on the date of issuance and the date on which they were subsequently purchased by the reporting entity. However, the Proposed Update would require the security with cost exceeding fair value to be analyzed under the CECL model, resulting in credit losses recorded in net income, while the security with fair value exceeding cost would qualify for the practical expedient and no credit reserves would be required. We do not believe that credit losses should be recorded to net income if they are expected to be insignificant, as doing so only reduces comparability and adds unnecessary complexity and cost.

The proposal to require the use of entity-specific assumptions in this particular aspect of the measurement and reporting of financial instruments seems to be at odds with the Board's efforts to move towards standardized fair value measurements in this area in recent years. While market-participant-based fair value measurements already incorporate credit risk, the proposed requirement for entities to "unlock" the credit risk component using entity-specific assumptions will inherently lead to greater inconsistency among entities with similar financial instruments.

We also believe that reported financial information, especially new, more complex financial information, should be decision-useful for investors and other users of financial statements. In contrast, however, the practical expedient's requirement to potentially record a separate, non-fair value, entity-specific measurement of expected credit losses for instruments classified as fair value through other comprehensive income ("FV-OCI") potentially decreases the decision-usefulness of the financial statements. The proposed move from an incurred loss model to an expected loss model, along with the natural increases in judgment and volatility that support the estimates will result in recognition of credit losses that will rarely, if ever, reflect the actual losses incurred on the related instruments. The fair values that are already disclosed and recorded through other comprehensive income incorporate a more market-based estimate of credit risk at a level that is meaningful and useful to investors. Using additional entity-specific credit loss forecast models, especially for instruments for which no significant losses are expected (as is the case for the vast majority of our investments), would not accurately depict expectations of credit risk and would not provide useful information in exchange for the tradeoff of added complexity.

The stated goal of the Proposed Update is to increase credit reserves, which is apparent in the requirement to incorporate into such reserves estimates of credit losses, even when none are expected. We believe this is an "artificial" inflation of credit allowances, and could reduce reported capital levels on the books of entities that are subject to minimum capital reserve requirements for regulatory purposes (e.g., banks, commercial lending operations, insurance entities, etc.), thereby negatively impacting overall lending and other business activities of those entities.

## **Recommended Practical Expedient Alternative**

If the general CECL framework is to be maintained, in order to make it more operational, we recommend that the Board expand the practical expedient by allowing its use if **either:** a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset, or b) expected credit losses on the individual financial asset are insignificant" rather than **both**. The practical expedient could be further improved by: 1) clarifying that, for securities with low credit risk such as investment grade securities, the practical expedient can be applied to pools of similar financial assets

sharing similar credit risk rather than individual securities (the Proposed Update seems to imply that the practical expedient is evaluated at individual asset level, which seems overly burdensome), and 2) with additional examples or implementation guidance relating to the term "insignificant." An "either/or" practical expedient would provide a more appropriate balance of cost/benefit than the Proposed Update as discussed below:

When compared to the Proposed Update an "either/or" approach would reduce cost and complexity.

Implementation of an "either/or" approach to the practical expedient would allow more securities to qualify for the practical expedient and, therefore, would not require significant amounts of new modeling and judgment. For example, in an increasing interest rate environment, fair values of many securities will not be greater than amortized cost on most debt securities, but the expected losses may still be insignificant. Such securities should not be required to be subject to the extensive analysis required by the CECL model. Appropriately, under an "either/or" approach less burden would be required if the fair value exceeds amortized cost.

Timely expected credit losses would still be recognized under an "either/or" approach.

Although no credit losses would typically be recorded for securities with fair values greater than amortized cost we believe this is appropriate unless facts and circumstances indicate otherwise. Credit risk is already incorporated through the current fair value measurement and, therefore, if fair value exceeds cost it is reasonable to expect that the cost basis of the asset is recoverable. This approach is consistent with current impairment models for debt and equity securities with fair values in excess of amortized cost, which we believe works well.

For any security (or pool of securities) with an amortized cost basis exceeding fair value, additional burden would be placed on entities to evidence that credit losses are expected to be "insignificant." If expected credit losses were found to be significant they would be timely recognized under the CECL model.

The "either/or" approach would increase comparability and provide more decision-useful information.

An "either/or" practical expedient also would avoid many of the comparability issues noted above including: 1) inconsistent accounting for comparable securities with similar credit risks based solely based on whether fair value exceeds cost, and 2) net income volatility created by securities coming in and out of the practical expedient due solely to non-credit related changes in fair value. Since entities would already be using a FV-OCI model for eligible instruments, the users of the financial statements would have information about the instruments' credit risk through the current fair value measurement requirement and the resulting financial information would not be less useful.

We believe the Board should give additional consideration to the following items if it continues forward with the Proposed Update in a substantially similar form:

Scope

For reasons stated above, including the fact that current fair value measurements of securities classified as FV-OCI already incorporate the risk of credit loss, we do not believe that financial assets measured at FV-OCI (e.g., debt securities) should be within the scope of this Proposed Update.

Additionally, we do not believe that reinsurance receivables should be subject to a CECL accounting framework that is not particularly meaningful given the nature of regulations applicable to both insurers and reinsurers. The Board should consider moving reinsurance receivables within the scope of the upcoming Insurance Contracts standard to ensure accounting consistency with the related liabilities. If reinsurance receivables remain within the scope of the Proposed Update, the Board should include a practicability exception for reinsurance receivables whose expected credit losses are insignificant. Historically, we have not experienced significant losses on reinsurance receivables, and therefore do not record credit allowances for these types of assets, primarily because the reinsuring entity either: 1) is a highly-rated, regulated entity (subject to minimum capital requirements) that does not have a history of defaulting on its liabilities, or 2) provides collateral for the reinsurance receivable.

#### Presentation and Disclosure

Relative to the composition of our investment portfolio, we believe that current financial statement disclosure requirements related to financial instruments and fair value measurements provide users with enough information to understand our business at a level necessary for making investment decisions. We believe that the additional disclosure requirements in the Proposed Update will result in lengthier, more complex disclosures without additional value to the users of financial statements. Specifically, the requirements to: 1) incorporate new disclosures on the face of the financial statements for even high-quality instruments with immaterial amounts of credit impairment, and 2) include significant amounts of new disclosure around credit quality, allowances, nonaccruals, and past-due instruments at each interim period (where a requirement to disclose only significant changes from the prior year-end would be more appropriate) do not provide users with incremental decision-useful information for our, and likely other entities', high-quality (generally investment grade) investment portfolios.

#### **Transition**

Given the potential complexity of the new credit loss guidance for financial instruments, along with the concurrent work being done on classification and measurement, hedging, insurance contracts, and other significant accounting standards, we believe the Board should not require an effective date earlier than January 1, 2016 in order to allow preparers adequate time to implement the new accounting framework and ensure that interactions among the various new standards are fully understood, captured, and vetted.

## Convergence

We are supportive of the Board's ongoing convergence initiative, and we are therefore not supportive of a standard that results in IFRS and U.S. GAAP differing on significant issues. We encourage the Board to continue to work with the IASB to develop a financial instruments model that is substantively converged.

## Conclusion

We are not supportive of a credit impairment model for financial instruments that is based on entity-specific assessments of expected future losses. We do not believe that the Proposed Update, in its current form, achieves the Board's objectives of reducing accounting complexity and providing more useful information to the users of financial statements. If the proposed CECL framework is to be maintained, we recommend **that the practical expedient should be expanded from an "(a) and (b)" approach to an "either (a) or (b)" approach**, such that an entity could qualify for the practical expedient if *either* (a) the fair value of an individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset, *or* (b) expected credit losses on an individual financial asset are insignificant.

\* \* \*

Yours truly,

Eric S. Rangen
Senior Vice President and Chief Accounting Officer

UnitedHealth Group Incorporated