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Technical Director - File Reference 1540-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 32

Re: File Reference No. 1540-100

Dear Sir/Madam:

Aetna Inc. ("Aetna") appreciates the opportunity to provide our views on the Financial Accounting Standards Board's ("FASB") Invitation to Comment, "An Agenda Item Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the International Accounting Standards Board ("IASB") Discussion Paper, Preliminary Views on Insurance Contracts" (the "ITC"). We are one of the nation's leading diversified health care benefits companies, offering a broad range of traditional and consumer-directed health insurance products and related services. Our customers include employer groups, individuals, college students, part-time and hourly workers, health plans, governmentsponsored plans and expatriates.

We apply accounting standards generally accepted in the United States when we prepare our consolidated financial statements with respect to insurance contracts (referred to herein as the "U.S. insurance accounting model"). Additionally, we operate our businesses through several insurance and health maintenance organization legal entities that are governed by various state regulatory authorities. A majority of these regulatory authorities require us to submit periodic financial statements prepared in accordance with accounting standards promulgated by the National Association of Insurance Commissioners ("NAIC") (referred to herein as "U.S. statutory standards"). The NAIC was created to address the need to coordinate regulation of multi-state insurers by developing uniform financial reporting by insurance companies. Although there are differences between the U.S.

insurance accounting model and U.S. statutory standards, the fundamental concepts of these standards that apply to our business operations are similar.

Based on our experience, we do not believe wholesale changes are warranted for the U.S. insurance accounting model, especially for short tail insurance lines of business such as property and casualty and health. We acknowledge, however, that some high profile companies have restated their financial statements recently as a result of the improper application of accounting judgments to certain transactions. We believe that these restatements emphasize the need for additional accounting guidance to assist preparers in determining whether a contract transfers sufficient risk to the insurer to qualify for insurance accounting. However, we do not believe that these isolated incidences necessitate wholesale changes to the U.S. insurance accounting model, as proposed in the ITC. Specifically, we believe the FASB is appropriately addressing the need for additional guidance with the current projects on its agenda: Insurance Risk Transfer and Financial Guarantee Insurance.

Having said this, however, we recognize that currently there are no consistent international accounting standards for insurance accounting and agree that the development of these standards should be a priority of the IASB. We also agree with the long-term goal of converging accounting standards promulgated by the FASB with those of the IASB. Consequently, we believe it is critical that the FASB be actively involved in the development of any international accounting standard for insurance transactions. We therefore encourage the FASB to participate in a joint project with the IASB to develop a comprehensive global set of accounting standards for similar insurance contracts by insurers and policyholders.

The global insurance industry is complex. The intricacies of this industry are fueled by a number of diverse products, the regulatory environment and the range of durations associated with these products. If the FASB agrees to add this project to its agenda, we respectfully request that it consider this a long-term project that requires significant input from a variety of constituents to consider the many facets of this industry. We believe representatives from different parts of the insurance industry that write these products (i.e., from short duration health and property and casualty products to long duration life and related products), including regulators, investors, taxing authorities and policyholders, should be fully engaged in developing a new set of accounting standards that will replace current standards on an international scale. Additionally, extensive field testing should be conducted, based on underlying concepts that consider the needs of the various constituents.

We have reviewed the IASB's Discussion Paper, "Preliminary Views on Insurance Contracts" ("Preliminary Views") and do not agree that the views expressed therein would be a suitable starting point for deliberations on global accounting standards for insurance. Specifically, we are concerned with the premise that insurance contracts should be reflected

at their "current exit value." Current exit value, although not explicitly stated as such in the ITC, basically represents the fair value of insurance contract liabilities. From an insurer's perspective, reflecting insurance contract liabilities at fair value would represent a substantial change from the current U.S. insurance accounting model. Reflecting insurance liabilities at an amount that we would expect to pay to transfer the remaining contractual rights and obligations to another party would yield significantly different results than those determined on a going concern basis. The consequences of this change could result in unusual accounting events and may impact long term business operating decisions. Furthermore, since the current exit value of an insurance contract is not observable, we are concerned about the reliability of such estimates and the variation in approaches among companies that would detract from, rather than enhance, comparability of reported results.

We have studied the building block approach to developing insurance liabilities based on the premise of exit value and are concerned that it places too great a reliance on assumptions developed by marketplace participants; where such information is not readily available to preparers.

In cases where there is no observable exit value of insurance contracts, the ITC provides three building blocks that would be used to estimate the liability. In the first building block, an insurer would estimate future cash flows using explicit, unbiased, market consistent, probability weighted and current assumptions. This approach significantly differs from our current approach, as our estimates are not necessarily consistent with observable market prices, because such observable prices do not necessarily exist. We do not understand why entity specific assumptions about future cash flows should be disregarded even if external market data did exist. We believe this assumption would result in estimates that differ materially from the underlying business operations of an insurance entity, potentially rendering financial results of the entity less meaningful. Furthermore a rigid adoption of this approach could lead companies to adopt undesirable business strategies to insure simpler accounting results.

Regarding the discounting of cash flows required in this approach and while we agree that the time value of money is a relevant concept applicable to insurance accounting, we believe the use of external discount rates independent of company experience will lead to significant issues. Investors are rightly concerned with how a financial institution invests its cash flow. Any reporting mechanism that divorces reported discount rates from actual investment policies and execution will ultimately lead to confusion and less clarity for the investing public. In addition, for short tail business, the introduction of discount into the calculation of liabilities will add variance into the estimation of the liabilities while at the same time having a generally immaterial effect on reported results. Again this brings less, not more transparency to the investing community.

In the third building block, an insurer would estimate risk margins using an explicit and unbiased estimate of the margin that market participants would require for bearing risk

and for providing other services. Again, we are concerned about the lack of observable market data for this assumption and the impact of this lack of data on developing this estimate. However, we support the use and disclosure of a risk margin in insurance liabilities, so users will more readily understand the possible variability inherent in establishing insurance liabilities.

Additionally, the Preliminary Views suggests that there is one model appropriate for the valuation of all insurance contracts, whether the contracts are for health, property and casualty or life insurance, reinsurance or contracts of short or long duration. Yet, we question whether the model suggested in the Preliminary Views will result in insurance liabilities that are more accurate than those developed using the U.S. insurance accounting model for short duration health contracts. For these contracts, the settlement of incurred claims usually occurs within a year (in fact, a large majority is settled within three months of incurral). If liabilities were established in accordance with the model described in the Preliminary Views, the preparer would have to develop cash flow, discount rate and margin estimates that are consistent with undefined market observable assumptions rather than estimating liabilities using its own historical claim experience. Although some of these steps may not be difficult for a health insurer to conduct, it does not seem worth the effort for a very small adjustment to the expected liability.

Finally, we are concerned by the premise that deposit components of an insurance contract should be unbundled and presented separately if they can be measured separately. We refer the FASB to our comment letter dated August 2006 on the FASB's Invitation to Comment, "Bifurcation of Insurance and Reinsurance for Financial Reporting," for our views on the potential adverse effect this concept will have on financial reporting for insurance contracts.

In conclusion, we appreciate your consideration of our views on this ITC and look forward to actively participating in the deliberations on a global set of accounting standards for insurance. We would be pleased to discuss our comments further with you or members of your staff. If you have any questions, please feel free to contact me.

Sincerely,

Romer M. Olyman