





March 22, 2011

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

Via email: <u>director@fasb.org</u>

Re: File Reference No. EITF 100H – Proposed Accounting Standards Update—Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)

Dear Ms. Cosper:

We are the five leading managed care companies in the United States: Aetna Inc., CIGNA Corporation, Humana Inc., UnitedHealth Group Inc. and WellPoint, Inc. As a group, we provide health insurance products and related services to more than 100 million medical members. Our customers include employer groups, individuals, college students, part-time and hourly workers, governmental units, government-sponsored plans, labor groups and expatriates. We also provide other insurance products, such as dental, term life, short-term and long-term disability, and supplemental health insurance coverage and services. Collectively we reported annual premiums and fees of approximately \$230 billion in 2010 (equivalent to 1.6 percent of the gross domestic product of the United States).

Summary

We appreciate the opportunity to provide our comments in response to the Financial Accounting Standards Board's (the "Board's") Proposed Accounting Standards Update—Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force) (the "Proposed ASU"). We commend the Board on its effort to clarify accounting for new fees and assessments originating from the provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, each as amended (collectively, the "Acts"). We are pleased that the Board has decided to broaden the scope of Accounting Standards Codification ("ASC") 720-50, Other Expenses—Fees Paid to the

Federal Government by Pharmaceutical Manufacturers ("ASC 720-50"), to include the fees assessed to health insurers given the inherent similarities of these assessments.

We concur with the Board's conclusions in the Proposed ASU with respect to the recognition of these fees assessed to health insurers. We appreciate the fact that the Board has made clarifications to ASC 720-50 regarding the timing of recognition of such fees. We also appreciate the clarity the Proposed ASU provides in FASB ASC Subtopic 405-30, *Insurance-Related Assessments* ("ASC 405-30"), which would exclude these assessments from the scope of ASC 405-30 and direct preparers to ASC 720-50 for the relevant accounting guidance.

We would like to bring to the Board's attention the fact that the addition of subtopic ASC 720-50-05-4(b) in the Proposed ASU incorrectly includes a covered entity's third-party administrative services fees in the determination of the assessment. The Acts do not include third-party administrative services fees in the determination of the fee amount. Therefore, we recommend that the Board remove the language "Two hundred percent of the covered entity's (as defined by the Acts) third-party administrative agreement" in subtopic ASC 720-50-05-4(b) in the final ASU. We suggest any language in the final ASU regarding the calculation of the assessment provide a reference to the Acts, rather than specifically define the formula, such that the guidance remains applicable to any changes to the assessment over time.

We are also concerned that the proposed changes to subtopic ASC 720-50-25-1 appear to limit the accounting guidance to health insurers and exclude pharmaceutical manufacturers. Rather, we believe the accounting guidance in subtopic ASC 720-50-25-1 should apply to both pharmaceutical manufacturers and health insurers. Therefore, we recommend that the original language be restored and the additive language for health insurers be inserted following that original language as illustrated by italicized language below:

720-50-25-1 The liability related to the annual fee described in paragraph 720-50-05-1 shall be estimated and recorded *in full upon the first qualifying sale or, for the health insurance industry, once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable, with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.*

In addition, we submit the following comments in response to the questions in the Proposed ASU for your consideration:

Comments

Question 1: The amendments in this proposed Update are consistent with the conclusions reached by the Task Force related to the fee to be paid by pharmaceutical manufacturers in accordance with the Acts. Do you agree that the conclusions should be consistent? If not, why?

We agree that the treatment of fees assessed to health insurers should be consistent with the treatment of fees assessed to pharmaceutical manufacturers. Both the assessments to health insurers and to pharmaceutical manufacturers contain similar provisions for calculating the

amount and determining the entities subject to the assessment. If the conclusions reached by the Board for the treatment of fees assessed to health insurers were different than those for pharmaceutical manufacturers, we believe it would result in confusion in the market place. Therefore, we support the proposed ASU in order to provide consistency in the application of accounting guidance to similar assessments for pharmaceutical and health insurer entities.

Question 2: The amendments in this proposed Update require that the liability for the fee be estimated and recorded once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. Do you agree with this conclusion? If not, how do you think the fee should be recognized and why?

We agree that the liability for the assessment should be estimated and recorded in the calendar year in which the assessment is payable (i.e., initially in calendar year 2014 for health insurers, as currently contemplated in the Acts). We note that there was initial confusion by certain health insurers who responded to the August 2010 Proposed ASU, *Fees paid to the Federal Government by Pharmaceutical Manufacturers* (the "Proposed Pharmaceutical ASU"), regarding the appropriate calendar year to record the assessed fees. Certain respondents to the Proposed Pharmaceutical ASU illustrated scenarios in which differing interpretations could result in the assessed fee being recorded in calendar year 2013. We believe this was due to conflicting guidance in ASC 405-30. However, we believe the Board has appropriately resolved any confusion regarding the timing of fee.

We believe that this assessment is intended to be a tax on health insurers to transact business in this industry, in part to fund other provisions of the Acts. As a result, an entity receives the same benefit (i.e., the right to participate in the U.S. health insurance market) each quarterly period in the year the assessment is payable. Accordingly, we concur with the proposal to recognize the assessment ratably over the year due. We believe that this methodology is consistent with the existing guidance in FASB subtopic ASC 270-10-45, which provides the applicable principles for the allocation of costs for interim reporting periods.

Question 3: The amendments in this proposed Update require that the fee be classified as an operating expense in the income statement of health insurers. Do you agree with that conclusion? If not, how do you think the fee should be classified and why?

Health insurers like us are currently subject to a number of fees and assessments from the various states in which we operate. We classify such costs as administrative type operating expenses rather than as a reduction of revenues. Accordingly, we agree that classifying these assessments as an operating expense is appropriate.

Question 4: The amendments in this proposed Update would specify that the fee does not meet the definition of an *acquisition cost* as amended by Update 2010-26. Do you agree with the conclusion? If not, why do you think the fee should be classified as an *acquisition cost* as amended by Update 2010-26?

We agree that the assessment does not meet the definition of an acquisition cost, as it is not directly related to the successful acquisition of new or renewal insurance contracts.

Question 5: Do you agree that no additional disclosures are necessary upon adoption or after the adoption of the amendments in this proposed Update? If not, please describe what disclosures should be required and why.

We agree that no additional disclosures are necessary.

Conclusion

We agree with the timing of recognition, methodology of allocation, classification and disclosure provisions of the Proposed ASU. However, as discussed above, we suggest the Board revise subtopic ASC 720-50-05-4(b) to remove the reference to third-party administrative services fees when it issues any final ASU and rather provide a reference to the Acts to identify this assessment, to appropriately reflect any changes to the calculation that may occur over time.

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We appreciate your consideration of our comments on the Proposed ASU. If we can provide further information or clarification of our comments, please call any of the signatories listed below.

Sincerely,

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