May 28, 2019

Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via email: director@fasb.org


Dear Mr. Kuhaneck:

This letter is submitted on behalf of UnitedHealth Group, Incorporated (“UnitedHealth Group” or the “Company”), a diversified health care company dedicated to helping people live healthier lives and making the health system work better for everyone through two distinct business platforms – UnitedHealthcare, our health benefits business, and Optum, our health services business. Our workforce of more than 300,000 people serves the health care needs of 141 million people worldwide, funding and arranging health care on behalf of individuals, employers, and the Government. UnitedHealth Group is a Fortune 6 company with annual expected revenues of over $240 billion in 2019. We are writing in response to your request for comments regarding the Proposed Update.

Overview

The Financial Accounting Standards Board (“FASB” or the “Board”) is considering the amendments in the Proposed Update as part of the disclosure framework project. The objective and primary focus of the disclosure framework project are to improve the effectiveness of disclosures required by generally accepted accounting principles (“GAAP”) in the notes to financial statements by facilitating clear communication of information that is most important to financial statement users.

UnitedHealth Group commends the Board in its effort to improve and further simplify GAAP disclosures, and we support the Board on removing some of the onerous provisions included in the July 2016 exposure draft. However, the remaining proposed changes do not further improve or simplify disclosures and therefore should not be implemented. As further elaborated below, we believe the proposed requirements will likely create confusion for users of the financial statements, do not provide additional useful information, and will be difficult and costly for companies to operationalize.
UnitedHealth Group

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Discussion

Current GAAP and Security and Exchange Commission ("SEC") rules, as it relates to financial statements and the Management Discussion and Analysis ("MD&A"), provide an effective framework for public companies to disclose the material and important information to users of the financial statements, including income taxes. In our view, the Proposed Update does not further advance this existing disclosure framework and would, in fact, create less useful and understandable income tax disclosure. Additionally, we believe the Proposed Update does not align with the extremely valuable and helpful simplification initiatives the FASB and SEC have undertaken in recent years. Much of the recent rulemaking has focused on reducing costs and complexities for companies, and improving the usefulness of information for users of the financial statements. We believe the Proposed Update is inconsistent with these simplification improvements.

To the extent the Board believes that private company financial statements are lacking income tax disclosures that would be useful to users, we believe the Proposed Update should be targeted to those entities.

The following outlines our concerns with respect to certain of the proposed amendments included in the Proposed Update:

Pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign

This proposed amendment is very concerning as it is likely to create confusion and be misleading for users of the financial statements. The SEC currently requires the disclosure of income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign components. This proposed amendment would effectively nullify the current SEC rule by specifying pretax income (or loss) from continuing operations before intra-entity eliminations – SEC regulations do not have such a requirement. Additionally, it would be difficult to operationalize, and potential investor and analyst confusion could unintentionally impact shareholder value.

Like many large diversified corporations, UnitedHealth Group has foreign operations that centrally service certain administrative and operating functions for the enterprise. These “back-office” operations typically derive most, if not all, of their revenue from internal activities. UnitedHealth Group has publicly discussed five growth pillars for the future, one of which is international growth. The proposed amendment to disclose pre-tax foreign earnings before eliminations will not present an accurate depiction of our business operations, and will therefore be misleading for analysts, investors, and other users of the financial statements. For example, we have discussed, externally, “measured” growth for our international operations. If our tax disclosure presents significantly different international earnings, due to including internal foreign arrangements, investors or analysts will receive an inaccurate view of international operations.
In the Board’s basis for conclusions, the Board notes that the sum of the foreign income (or loss) from continuing operations before intra-entity eliminations may not equal the amount presented in the income statement. We believe presenting a profit measure that does not agree to our statement of operations would be extremely confusing to users of the financial statements. This pre-elimination disclosure would in effect create another segment-like disclosure, but would not be meaningful or useful to analysts and investors, given it would not be reflective of consolidated operations or how the company is managed. If the objective of the disclosure is to help investors understand material tax cash flows by jurisdiction, such impacts are currently subject to disclosure within the effective tax rate reconciliation. To the extent intra-entity foreign arrangements materially impact current or future tax rates; the MD&A is intended to capture such effects.

Additionally, under GAAP, we are required to eliminate intra-entity transactions in consolidation. Therefore, this proposed amendment would be difficult to operationalize, because it would require us to change existing processes, controls, and potentially systems to present this information before eliminations. Our systems are not structured to eliminate at this level of detail. Such a change would involve significant time, effort, and costs and would be difficult to operationalize within the time period allotted to file financial statements with the SEC. Similarly, the need to report pre-tax income (or loss) before intercompany eliminations could be difficult for companies to operationalize who have transactions between foreign and domestic entities within the same reporting segment. Often, an accounting convention to match timing and recognition of transactions within a reporting segment is applied to ease elimination. However, the proposed amendment would require further consideration, analysis, and system changes to identify and account for these transactions under pre-elimination GAAP.

The Board should not specify whether the disclosed amounts are before or after intra-entity eliminations. As clearly detailed above, the proposed amendment, intended to potentially reduce diversity in practice, creates many unintended and adverse impacts. To the extent the Board feels compelled to adopt changes in this area, we encourage alignment to, or adoption, of SEC rules.

**Income Taxes Paid**

The proposed amendment would require the disclosure of income taxes paid disaggregated between federal, state, and foreign jurisdictions.

Consistent with our prior letter dated September 30, 2016, we continue to have concerns with this proposal. Because income taxes paid do not correspond directly to income or loss from operations, this metric would not be particularly helpful to users of the financial statements. Income taxes paid is based on taxable income, which is different than income from operations. Taxes paid may also include true-up payments, settlements, refunds, etc. that relate to other periods. Additionally, the timing of when cash payments are made is often in a period subsequent to when the income from operations is reported. Therefore, this disclosure could be confusing to a user of the financial statements.
In addition, this disclosure could be operationally burdensome, specifically for large multinational entities. Entities with decentralized multinational locations may find it difficult to separate this information by jurisdiction as tax payments are made at different times in different jurisdictions. This could also create a cost burden as processes need to be put in place for certain entities to track cash payments for income taxes such that these can be aggregated across the enterprise.

These operational challenges are amplified if income tax payments are required to be disclosed in interim financial statements, regardless of the requirement to disaggregate by jurisdiction. We are concerned that the amount of time and effort required to gather the relevant data is likely not feasible, especially given it is unlikely the information will be available from all relevant jurisdictions in time for interim reporting. We also do not believe that interim tax payment information is useful to users of the financial statements given the cash flow statement already incorporates income tax payments, and because the timing of income tax payments varies and does not correspond to the periods when the tax is incurred. Because it is unclear what additional decision-useful information is provided, we recommend that the Board remove both proposed amendments regarding cash taxes paid (i.e. the amendment that would require income taxes paid, disaggregated between federal or national, state and foreign and the amendment to require disclosure of income taxes paid during the interim period in interim financial statements).

**Valuation Allowance Disclosure**

The proposed amendment would require companies to disclose the amount of the valuation allowance recognized and released each period along with an explanation of the changes.

We recommend the Board remove the proposed amendment as existing disclosure already provides detail about the most significant and meaningful variations in the allowance. This information is currently subject to disclosure through the existing disclosure requirements, including discussion in the MD&A section, where material financial statement changes are discussed. For example, in the rate reconciliation, companies are required to disclose material income statement impacts related to adjustments of the beginning-of-the-year balance of a valuation allowance and the effects of changes in the valuation allowance on deferred tax assets. If changes in the valuation allowance are a material change, these should be disclosed in the MD&A section. Finally, disclosure of changes in balances are not typically provided in financial footnotes and this would be a deviation from practice that doesn’t appear warranted.

**Carryforward Disclosure**

The proposed amendment would require companies to disaggregate deferred tax assets for net operating loss carryforwards (NOLs) by each of the first five years subsequent to the reporting date.

We believe the Board should remove the proposed amendment requiring disaggregation by the subsequent five years and continue to require companies to disclose information regarding carryforward expirations using a method that is most helpful to their investors. This proposed amendment can be potentially misleading and also does not provide decision-useful information.
Valuation allowances are currently recorded for carryforwards that will expire unused; therefore, the expiration of carryforwards is already encompassed in the net deferred tax asset balance. Additionally, many NOLs do not expire, such as those in the United States under the Tax Cuts and Jobs Act, and these NOLs are often the largest portion of a company's carryforwards. Further, carryforward expiration dates do not accurately represent when a carryforward will be used as companies can use a carryforward at any period before the expiration date, if eligible. As such, we believe that disaggregating carryforwards by expiration period does not provide incremental value and may be misleading to investors. Additionally, this information may be difficult and time-consuming to gather for multiple years in multiple jurisdictions.

Rate Reconciliation Requirements

We do not support the proposed amendment that would require an explanation of the year-to-year change of each reconciling item in the rate reconciliation. We believe the descriptors that are already included in the rate reconciliation are generally simple, straightforward, and provide insight into the nature of the items and possible source for change. Additionally, as part of an entity's MD&A, the SEC expects inclusion of certain disclosures related to income taxes, including a narrative discussion that details what drove a material change in the effective tax rate. Thus, material changes in the rate reconciliation are subject to MD&A disclosure requirements. GAAP does not currently require period over period changes to be discussed within footnote disclosures, thus such a requirement seems unnecessary and would create disclosure inconsistencies. Also, this change could cause companies to discuss immaterial changes within their footnotes that would not provide value for users of the financial statements, and would be contrary to the recent simplification efforts.

Disaggregation of Income Tax Expense

The addition of this proposed amendment to GAAP is unnecessary as SEC rules already require a similar disclosure that provides users with useful information. Under SEC rules, registrants are required to disclose amounts applicable to United States federal income taxes, foreign income taxes, and other income taxes if a component is greater than 5% of income taxes. Also, the proposed amendment would result in differing disclosure requirements between two sets of authoritative literature which is contrary to simplification efforts.

Additionally, the proposed amendment, to further disaggregate income tax expense (or benefit) at the state level, does not appear to consider materiality. Requiring additional disaggregation at the state level is not necessary, particularly when the rate reconciliation already includes any material effects of differing tax rates in state jurisdictions. We believe companies should continue to have discretion on what to disclose based on their specific facts and circumstances. Therefore, we do not believe this additional disclosure requirement is beneficial to users of the financial statements.

Summary / Conclusion

Further changes to income tax disclosures are unnecessary as the current reporting framework under SEC and GAAP rules ensures material, useful, and important tax information is provided to users of the financial statements. In our view, the Proposed Update does not further advance this
existing disclosure framework and would, in fact, create less useful and less understandable income tax disclosures and be inconsistent with recent simplification efforts. Also as outlined in our letter, we believe the proposals will be costly, time consuming, and burdensome to implement.

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We appreciate your consideration of our comments on the Proposed Update. If we can provide further information or clarification of our comments, please call me.

Sincerely,

Thomas E. Roos  
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UnitedHealth Group, Incorporated  
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