March 13, 2012

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

Re: File Reference No. 2011-230, Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Dear Technical Director,

Thank you for the opportunity to comment on the Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605): Revenue from Contracts with Customers (the “Proposed ASU”).

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 help make health care work better. We work with physicians and other health care professionals, hospitals and other key partners to expand access to quality health care. We help people get the care they need at an affordable cost, support the physician/patient relationship, and empower people with the information, guidance and tools they need to make personal health choices and decisions.

Through our diversified family of businesses, we leverage core competencies in advanced, enabling technology; health care data, information and intelligence; and 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.

Revenues for the year ended December 31, 2011 were approximately $102 billion. Our revenues are comprised of premiums derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers’ health care benefits and related administrative costs. We also generate revenues from administrative service contracts (ASC), which cover fee-based services performed for customers that self-insure the health care costs of their employees and employees’ dependants. For both risk-based and fee-based health care benefit arrangements, we provide coordination and facilitation of medical services; transaction processing; health care professional services; and access to contracted networks of physicians, hospitals and other health care professionals. We also generate service revenues from our OptumInsight business—a health information, technology, services, and consulting company providing software and information products, advisory consulting services, and business process outsourcing to participants in the health care industry. Product revenues are mainly comprised of products sold by our OptumRx pharmacy benefit management business and sales of OptumInsight publishing and software products.
We are supportive of the Board’s efforts to simplify financial statement preparation by reducing the number of revenue requirements. We are also supportive of the core principle in the Proposed ASU that revenue recognition should depict the transfer of goods or services to customers in an amount based on what is expected to be received in exchange for those goods or services. Additionally, we agree with the continued convergence of U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards.

Overall, we believe that the Board’s revisions to the Proposed ASU are a significant improvement in establishing a clear standard that can be applied in a way that effectively communicates the economic substance of our contracts with customers to users of our financial statements. We appreciate the consideration the Board has given to concerns raised in the previous round of comments and we hope that further improvements will be made in response to new comments.

The remainder of this letter contains our responses to certain questions raised by the Board and highlights other areas that we believe warrant further guidance and clarification.

**Responses to the Board’s Questions**

**Question 1:** Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree with the proposed model for determining when a good or service is transferred over time and we appreciate the addition of guidance that facilitates the application of the standard to service contracts. The criteria outlined in paragraphs 35 and 36 seem to accurately reflect the economic realities of performance obligations that are fulfilled over time.

The Implementation Guidance examples in paragraphs IG63 and IG64 dealing with services that are transferred over time do not include an example of the application of the proposed guidance to service contracts not involving tangible goods. Inclusion of additional examples in the Implementation Guidance related to such service contracts would be helpful to facilitate consistent application of the proposed guidance and make the proposed standard more suited to service contracts. For example, the discussion in paragraphs BC96 and BC102 related to the application of paragraph 35 to (1) transaction processing services in which a customer simultaneously receives and consumes benefits as the entity performs and (2) a consulting contract with the report due at the end of the period, but the right to receive interim payments based on work completed to date are useful examples that should be included in the codified guidance.

**Question 2:** Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

We agree with the Board’s decision to remove the credit risk adjustment from the determination of the transaction price. We also believe that the standard should provide an option to allow for
net revenue presentation on the face of the income statement rather than requiring a separate line item adjacent to revenue. Such an option would allow entities to select the presentation that they believe will be most useful to the users of their financial statements. As proposed, many entities with limited credit risk and credit impairments and adjustments would be required to add a line to the face of the financial statements that is insignificant and only adds unnecessary complexity and length. Additional required footnote disclosure of the details around the allowance for impairment losses could provide any supplemental information deemed necessary for users of the financials.

**Question 3:** Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the concept that revenue recognition should be constrained to some degree when consideration is variable; and we also firmly believe that entities need flexibility to make estimates and use judgment in recognizing revenue in these situations in order to achieve the core principle of the Proposed ASU to have revenue most faithfully depict the transfer of goods and services to the customer. Criteria 81(a) and 81(b) along with the clarifying indicators in paragraph 82 are clear, would allow for practical application, and would still leave room for professional judgment.

At the same time, the subsequent guidance in paragraph 85 seems to introduce an overly specific example that stands in contrast to the judgment-oriented criteria that precede it. The act of describing a specific type of transaction (in this case, an entity licensing intellectual property to a customer and receiving an additional amount of consideration that varies on the basis of the customer’s subsequent sales) and stating that the entity is not reasonably assured to be entitled to the additional consideration seems better suited to be an example in the Implementation Guidance where each of the paragraph 82 factors could be discussed more thoroughly.

Although paragraph BC203 indicates that paragraph 85 was added to address certain situations in which factors outside an entity’s control could subsequently affect the amount of revenue recognized, and offers the caveat that paragraph 85 does not preclude revenue recognition in all such circumstances, readers are left wondering when a transaction with some factors outside an entity’s control would be similar enough to the paragraph 85 example that it would automatically fail to meet the “reasonably assured” threshold.

Our concern is that accountants or auditors would tend to analogize paragraph 85 guidance to transactions that do not represent licenses of intellectual property (with similar fact patterns to those described in paragraph 85) rather than working through paragraphs 81 and 82. This could potentially create many unintended consequences that could undermine the core principle of the Proposed ASU by restricting revenue recognition to the point where it no longer depicts the transfer of goods or services to the customer. At the very least, the lack of explanation around
why this transaction does not create “reasonably assured” revenue will lead to speculation about which parts of paragraphs 81 and 82 it does not meet, and could lead to misinterpretation. Again, we believe that paragraphs 81 and 82 are clear and practical and could be applied to any customer contract. There is no need to append the paragraph 85 “rule” and doing so has the potential to undermine the paragraphs that precede it.

**Question 4:** For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Although we agree that excluding performance obligations that will be fulfilled over a period of time shorter than one year from the scope of the onerous test is an improvement and makes the Proposed ASU more practical, we continue to believe that a requirement to perform onerous assessments at the performance obligation level, rather than on contracts as a whole or groupings of contracts, is unreasonable. Requiring entities to record liabilities related to contracts expected to remain profitable overall does not provide logical, useful information to users of the financial statements.

The proposed requirement would create significant new burdens on preparers and would be very difficult to make operational on an ongoing basis. For example, for a diversified company such as ours, performing and evidencing at each reporting date that all performance obligations across the organization have been evaluated to determine if they are onerous and that any required updates to the measurement of the liability for onerous performance obligations have been completed would be burdensome and costly. Our current systems do not capture the required information to allow for such analysis because we do not manage and evaluate our business and customer contracts in this manner.

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. **The disaggregation of revenue** (paragraphs 114–116)

2. **A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period** (paragraph 117)

3. **An analysis of the entity’s remaining performance obligations** (paragraphs 119–121)

4. **Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period** (paragraphs 122 and 123)

5. **A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer** (paragraph 128).
Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

We have significant concerns about the extent of the proposed disclosure requirements in both interim and annual financial statements. The objective of the disclosure requirements - “to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers” - can be achieved without many of the proposed disclosure requirements. Compared to our existing disclosures, which we believe largely achieve the objective stated above, the proposed disclosures will likely add significant length to our financial statements. This would have the effect of adding volume and complexity, while diluting more important disclosures and actually reducing the overall usefulness of our financial statements for many users.

We believe that the level of disaggregated revenue disclosure required by current segment-reporting guidance results in the appropriate amount of detail for users of our financial statements since it is based on a determination of how our business is managed (which generally reflects the level at which management measures risk) and on the level of information presented to our chief operating decision maker for his evaluation.

In light of our diverse business offerings and contracts, the introduction of multiple new systems to account for the tabular reconciliation of contract balances in paragraph 117 will be costly to implement and difficult to administer on an ongoing basis. Detailed information on: changes in transaction prices to performance obligations satisfied in previous reporting periods, cash received bifurcated between cash received for accounts receivable and related to contract assets/liabilities, and transfers to accounts receivable is not information that is currently tracked and reconciled in this manner and will require new robust processes and controls across our business lines to administer and to ensure accurate reporting.

We do not currently track and gather information about the timing of when individual performance obligations are expected to be satisfied. Any disclosures requiring detailed information at the performance obligation level would be significantly burdensome for us in light of our diverse business offerings and contracts with large numbers of performance obligations.

As another example, while we do not disagree that the disclosure of the amount of assets recognized from the costs to obtain or fulfill a contract with a customer may be useful to the users of our financial statements, we do not believe that a requirement to include tabular reconciliation of those assets provides sufficient incremental value to the users of our financial statements to justify the additional costs and processes to aggregate, track, audit and disclose these amounts.

Because we do not agree with the proposed disclosure requirements and believe that their costs will far outweigh their benefits, we especially do not agree with the proposal to include them in interim financial statements.
Other Comments

Service-Level Guarantees

Some of our service contracts contain service-level guarantees that require a certain quality of performance by the Company over stated time periods. For example, a contract may include a claims-processing accuracy target that must be met over a monthly, quarterly, or annual term. If we do not achieve the specified level of accuracy, we may agree to pay the customer an agreed-upon penalty. Existing authoritative literature does not address these types of guarantees directly, and the Proposed ASU is not clear on the treatment of these features, focusing mainly on product warranties (although paragraph 9(d) does seem to imply that “service warranties” are within the scope of this guidance). These service-level guarantees are very common for entities dealing primarily in service industries and the inclusion of additional guidance clarifying how these types of service-level guarantees should be accounted for would result in a final standard that could be more easily applied in practice to service contracts.

Our service-level guarantees are conceptually very similar to the quality-assurance warranties discussed in paragraph IG10 (which explicitly states that it applies to warranties in connection with the sales of goods and services), and thus the Proposed ASU seems to direct us to Subtopic 460-10 guidance on product warranties for the appropriate accounting framework.

At the same time, a reader could also reasonably interpret the Proposed ASU to indicate that service-level guarantees would be a form of variable consideration subject to that guidance, including paragraph 57 which states, in part: “that if consideration is received from the customer and the entity expects to refund some or all of that consideration, the entity shall recognize as a refund liability the consideration that the entity reasonably expects to refund.” Paragraph IG3 further discusses the application of the refund liability and paragraph 57 and indicates that it includes some services that are provided subject to refund. Under this interpretation, service-level guarantees would also be subject to the “reasonably assured” principle outlined in paragraphs 81 and 82 (see our comments related to paragraph 85 above).

We believe that our service-level guarantees are more like quality-assurance warranties because, from our customers’ perspectives, they aren’t in place to create variable pricing structures, but to ensure that the services they receive over the course of the contract meet their expectations. In other words, there isn’t an upfront expectation that we will fail and have to refund their money.

With the goal of producing a final standard that provides clear guidance for service-only contracts and thus requires less guesswork in its practical application, we would ask that the Board consider clarifying whether service-level guarantees should be treated as variable consideration or as quality-assurance warranties.

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Yours truly,

Eric S. Rangen
Senior Vice President and Chief Accounting Officer
UnitedHealth Group Incorporated