EITF100D Comment Letter No. 6 Humana Inc. 500 W. Main Street Louisville, Ky 40202 Humana.com

November 2, 2010

Technical Director
Financial Accounting Standards Board
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Norwalk, CT 06856-5116

HUMANA.

Guidance when you need it most

Via email: director@fasb.org

Re: File Reference No. EITF100D

Dear Sir or Madam:

We appreciate the opportunity to comment on the Financial Accounting Standards Board proposed Accounting Standards Update, Fees Paid to the Federal Government by Pharmaceutical Manufacturers (the "Proposal"). Humana Inc. is one of the nation's largest publicly traded health and supplemental benefits companies, based on our 2009 revenues of approximately \$31.0 billion. We are a full-service benefits solutions company, offering a wide array of health and supplemental benefit products for employer groups, government benefit programs, and individuals. As of September 30, 2010, we had approximately 10.1 million members in our medical benefit plans, as well as approximately 7.0 million members in our specialty products.

As discussed below in our detailed responses to the questions posed in the Proposal, we agree with the proposed guidance for the recognition and classification of fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts) for pharmaceutical manufacturers. Given similarities, we believe that the scope of the Proposal should include the annual fee paid by health insurers to the U.S. Treasury in accordance with the Acts.

Question 1: Do you agree that the scope of this proposed Update should be limited to the fees to be paid by pharmaceutical manufacturers or should it also include other fees required by the Acts that have similar characteristics as the pharmaceutical fees (for example, fees to be paid by health insurers)?

The Acts provide for various types of fees to be assessed, including the pharmaceutical manufacturing industry fee and the health insurance industry fee, to fund a portion of the costs associated with other provisions of the Acts. Similar to the pharmaceutical manufacturing industry fee, the health insurer fee is (1) mandated by the Acts, (2) assessed and paid annually; (3) not tax deductible; and (4) allocated to individual entities based upon prior year activity (i.e. branded prescription drug sales for pharmaceutical manufacturers and net premiums for health insurers). Given these similarities, we believe that the scope of the Proposal should include the annual fee paid by health insurers. If the scope were not expanded to include health insurers, it could result in a different basis of accounting for the pharmaceutical industry as compared to health insurers for nearly identical fees assessed by the Acts.

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Question 2: The amendments in this proposed Update require that upon recognition of the liability, the fee should be recognized over the calendar year the fee is payable using a straight-line method of allocation unless another method better allocates the fee over the calendar year the fee 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 health insurer fee should be recognized over the calendar year the fee is payable using a straight-line method of allocation.

The health insurer fee is payable beginning in calendar year 2014 and allocated to health insurers based on premiums in the preceding calendar year (i.e. 2013). Since the assessment is a funding mechanism for other provisions of the Acts, we believe that the assessment is incurred in the year in which it is due and payable. Further, we believe the reference to premiums in the preceding calendar year (i.e. 2013) is merely a mechanism to allocate the fee among health insurers based on market share.

This view is supported by the Acts' definition of a "covered entity" (i.e. an entity subject to the fee pursuant to the Acts) as "...any entity which provides health insurance for any United States health risk during the calendar year in which the fee under this section is due." This definition implies that an entity will not be assessed a fee, and therefore has not incurred an obligation, in a given calendar year if it does not provide health insurance coverage in the calendar year in which the fee is due (i.e. 2014), regardless of premiums in the preceding calendar year (i.e. 2013).

Accounting Standards Codification 405-30, *Insurance Related Assessments*, provides guidance related to premium-based insurance-related assessments. If the health insurance industry is included in the scope of the Proposal, it will further clarify the guidance in ASC 405-30 as it relates to the annual fee to be paid by health insurers. The guidance in ASC 405-30 was written principally to address a very specific issue (the accrual of assessments imposed by state regulators for insolvent insurers), and in trying to apply that specific guidance to the health insurer fee, some have come up with different interpretations of the timing of liability recognition as well as the period of expense. Inclusion of the health insurance fee in the Proposal would ensure greater consistency and comparability within the health insurance industry and among the health insurance and pharmaceutical industries as it relates to the fees mandated by the Acts.

In accordance with ASC 405-30-25-1, insurance-related assessments are recognized when all of the following are met: 1) it is probable that an assessment will be imposed, 2) the event obligating the entity to pay has occurred on or before the date of the financial statements, and 3) the amount of the assessment can be reasonably estimated. Consistent with the guidance in the Proposal for recognition of the pharmaceutical manufacturing industry fee over the calendar year the fee is payable, we believe that the annual fee paid by health insurers should be recognized over the calendar year of the assessment (i.e. 2014, the calendar year in which the fee is payable) because we believe the obligating event is the first dollar of premium from providing health insurance coverage in the year of assessment. This is consistent with the previously referenced definition of a covered entity

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in the Acts as an entity which provides health insurance for any U.S. health risk <u>during the calendar year in which the fee is due</u>. This is also consistent with the guidance in paragraph 720-50-05-2 of the Proposal that a pharmaceutical manufacturing entity's portion of the annual fee becomes payable to the U.S. Treasury once the entity has a gross receipt from branded prescription drug sales to any specified government program or in accordance with coverage under any government program for each calendar year beginning on or after January 1, 2011.

The annual fee represents a cost of doing business similar to a licensing fee. It is a fee imposed by the government that gives a health insurer the right to offer health insurance for the entire year. Therefore, we believe that it is appropriate to amortize the fee on a straight-line basis over the calendar year in which it is due as it represents a cost of providing insurance coverage for the entire year.

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

We agree with the presentation of the fee as an operating expense for the health insurance industry. The fee represents an operating expense and not a contra-revenue because it represents a cost of doing business (i.e. a fee imposed by the government to offer health insurance) and does not represent a customer rebate. No portion of the fee is returned to policyholders. The fee is applied to industry participants based upon insurance premiums from all policyholders, not just those received from the government, but is only payable to the U.S. Treasury.

Question 4: 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.

We appreciate the opportunity to express our views on this Proposal. If we can provide further information or clarification of our comments, please call me at 502-580-3921, or Mike Koeberlein at 502-580-1218.

Sincerely,

Humana Inc.

By:

Steven E. McCulley

Vice President, Controller and Principal Accounting Officer

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