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By email to director@fasb.org
Technical Director
File Reference No. 2013-290
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT, 06856-5116

Re: Proposed Accounting Standards Update Topic 834, *Insurance Contracts* (the “exposure draft” or the “proposed Update”)

Dear Technical Director,

Primerica, Inc. (“we”, “us” or the “Company”) appreciates the opportunity to comment on the exposure draft published by the Financial Accounting Standards Board (the “FASB”). We believe it is noteworthy to acknowledge the significant challenge that the FASB faces in preparing a comprehensive standard Update that is the most beneficial to all constituents. We also appreciate the significant time and effort put forth by the FASB to publish the exposure draft and solicit feedback from such a vast group of stakeholders.

As stated in the exposure draft, the FASB’s main objective is to provide guidance to increase the decision usefulness of the information about an entity’s insurance liabilities, including the nature, amount, timing and uncertainty of cash flows related to those liabilities, and the effect on the statement of comprehensive income, and to provide comparability, regardless of the type of entity issuing the contract. In addition, we believe that another critical objective implicit in establishing new accounting standards for insurance contracts is to reduce inconsistencies with accounting standards issued by the International Accounting Standards Board (the “IASB”), which issued its own proposed accounting standards for insurance contracts on June 20, 2013. In the absence of targeted modifications to the exposure draft, we have significant concerns that the guidance in the exposure draft may contradict portions of both those stated and implicit objectives.

We concur with the responses being provided by the American Council of Life Insurers (“ACLI”) and wish to provide further discussion to certain respondent questions of particular concern that address the following topics:

- Locking the insurance contract margin
- Guidance for determining insurance contract revenue
- Definition of a portfolio of insurance contracts
- Measurement of fulfillment cash flows
- Discount rates
- Recognizing the impact due to changes in discount rates in other comprehensive income
- Costs of implementation and on-going efforts

We believe that changes and improvements to the exposure draft in the areas referenced in this document are necessary to ensure that generally accepted accounting principles in the United States (“US GAAP”) remain of the highest quality and provide the most usefulness to financial statement users. In addition, we feel these modifications are essential to increasing comparability amongst entities as well as in appropriately balancing the costs and benefits inherent in implementing a new standard. Listed below are the respondent questions in the exposure draft for which we would like to offer further discussion and our responses to those questions.

Question 8 - Portfolio and Contract Boundary

Questions for Preparers and Auditors

Question 8: Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

Response: We believe that the definition of a portfolio of insurance contracts included in the exposure draft could result in both inconsistent interpretation and in an overly granular interpretation of how a portfolio of contracts is grouped. We believe the portfolio definition should group contracts based on how they are managed by the company.

For example, one company may manage its term life insurance policies as one portfolio with common characteristics, including similar cash flow patterns (e.g. level premiums over a pre-defined long-term period) and providing coverage for similar risks (e.g. mortality). Pricing and underwriting standards may define a range of impact based on age and various health characteristics of the policyholder, but those standards typically are defined for the entire portfolio of term life policies. However, another company may narrowly interpret that separate portfolios within a common term life product may still be necessary for tobacco users versus non-tobacco users, or for 20 year-old policyholders versus 40 year-old policyholders.

Providing a narrow interpretation of the definition of portfolio could lead to overly complex portfolio classifications that are excessively burdensome to track and value each period and also may not represent to the financial statement user how a company actually manages its business. Therefore, we request that the FASB clarify the guidance in the exposure draft to allow an entity to group as a portfolio any insurance contracts that are managed together as a single pool. In determining whether insurance contracts are managed as a single pool, an entity would be required to consider if the contracts are subject to similar risks (e.g., mortality, morbidity, risk of loss etc.) and are priced relative to the level of risk assumed.

Question 10 - Fulfillment Cash Flows

Questions for Preparers and Auditors

Question 10: Do you agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows, including embedded options and guarantees related to the insurance coverage under existing insurance contracts that are not separated and accounted for as embedded derivatives? If not, what cash flows do you think also should be included or excluded and why?

Response: We agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows but also believe the inclusion should be extended to commissions and premium taxes. Commissions and premium taxes fit the definition of fulfillment cash flows outlined in the exposure draft as these items arise as an entity fulfills the insurance contract and are direct cash flows of fulfilling that contract. Excluding these items would appear inconsistent with including premiums in the measurement of the cash inflows from an insurance contract as commissions and premium taxes are directly related to the amount of premiums collected. In addition to being a more accurate representation of matching the fulfillment cash outflows of a contract with its cash inflows, including commissions and premium taxes in the measurement of the fulfillment cash outflows would eliminate an unnecessary difference between the FASB's exposure draft and the IASB's exposure draft.

Question 13 - Fulfillment Cash Flows

Questions for All Respondents

Question 13: Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?

Response: We believe that the approach in the exposure draft to immediately recognize changes in estimates of future cash flows in net income should be modified to instead unlock the insurance contract margin and recognize those changes over the remaining lives of the underlying contracts. Without unlocking the margin, periods with very small and judgmental assumption changes can introduce significant gains and losses even with little to no change in the underlying certainty of those future cash flows. We believe this excessive volatility will reduce the transparency for how profits are earned on insurance contracts. Furthermore, we believe that locking of the margin on a long-term contract is inconsistent with other principles widely acknowledged in US GAAP and also presents an unnecessary difference between the FASB's exposure draft and the IASB's exposure draft.

In the "FASB In Focus – Proposed Accounting Standards Update – Insurance Contracts (Topic 834)" issued on June 27, 2013, the FASB states that, "*The guidance in the proposed Update would require an insurer to recognize revenue in a manner that is, compared with current practice, more broadly consistent with concepts of revenue recognition in the proposed Update, Revenue from Contracts with Customers – in proportion to the value of coverage or services provided.*" However, the guidance outlined in "Revenue Recognition Topic 605, Revenue from Contracts with Customers", requires an entity to recognize changes in the transaction price of a long-term contract (which can be analogized to the margin in a long-term insurance contract) by allocating the change to satisfied performance obligations and unsatisfied performance obligations. Allocations to satisfied performance obligations are adjusted in revenue in the current period while allocations to unsatisfied performance obligations are included in revenue when those performance obligations have been satisfied. This approach is similar to the unlocking of the insurance contract margin where the impact of changes in fulfillment cash flows for performance obligations that have been satisfied are recorded in the current period and changes attributable to future performance obligations are recognized in subsequent periods when the performance obligations are satisfied. This rationale is outlined in paragraph BC139 of "Revenue Recognition Topic 605, Revenue from Contracts with Customers", which states that "*The Boards believe that reflecting current assessments of the amount of consideration to which the entity expects to be entitled would provide more useful information to users than retaining the initial estimates, especially for long-term contracts that are subject to significant changes in conditions during the life of the contract.*" Paragraph BC141 goes on to further state that, "*The Boards rejected the alternative of recognizing the entire amount of a change in the estimate of the transaction price in profit or loss when that change occurs. In the Boards' view, that alternative could result in a pattern of revenue recognition that does not faithfully depict the pattern of the transfer of goods or services.*" It would appear as though locking in the margin for a long-term insurance contract would directly conflict with this concept.

As noted above, the unlocking of the contract margin is preferred in that it provides a faithful representation of the unearned profit that is expected to be recognized over the remaining coverage period.

Question 14 - Discount Rates and Discounting

Questions for All Respondents

Question 14: Do you agree that the discount rates used by the entity for nonparticipating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

Response: We believe that the discount rates used for nonparticipating contracts should be derived from the expected return on the assets held in support of the policy benefit reserves underlying those contracts. The assets that back policy benefit reserves are part in parcel to the pricing and statutory capital requirements for nonparticipating contracts and therefore provide a relevant metric for discounting its fulfillment cash flows. In addition, we believe that allowing entities to use an expected return on the actual assets backing the reserves will relieve significant ambiguities involved in deriving certain unobservable components inherent in both the top-down and bottom-up approaches and will be more meaningful for financial statement users.

Question 16 - Discount Rates and Discounting

Questions for All Respondents

Question 16: Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income? If not, do you think that the effect of changes in the discount rates should be presented in net income? Please explain your reasoning.

Response: We believe that discount rate volatility on long-duration insurance contract liabilities should be recognized in other comprehensive income and consistently with volatility in the fair value of the assets that back the policy benefit reserves underlying those contracts. Consequently, we support the position that unrealized gains and losses on the available-for-sale assets that support insurance contract reserves should be aligned by also being recorded to other comprehensive income. Therefore, we urge the Board to reconsider guidance on the measurement and classification of financial instruments to specifically provide for recognition in other comprehensive income for all unrealized gains and losses on assets held in support of insurance contract liabilities.

Question 31 - Insurance Contract Revenue

Questions for All Respondents

Question 31: Do you agree that users of the financial statements would obtain relevant information that faithfully represents the entity's financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

Response: We do believe that the presentation of insurance contract revenue and incurred expenses in net income is relevant information for users of the financial statements. Therefore, we believe it is important to revise the guidance in the exposure draft as we do not feel it is sufficient in providing an objective measurement of insurance contract revenue that faithfully represents an entity's performance to the users of the financial statements. Please refer to our response to Question 34 below for more detail of our view on the insurance contract revenue guidance provided in the exposure draft.

Question 34 - Insurance Contract Revenue

Questions for Preparers and Auditors

Question 34: For contracts measured using the building block approach, does this proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)? If not, explain what additional guidance is necessary.

Response: We believe that the guidance in the exposure draft does not provide a useful approach of how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time. We are concerned that the significant complexity and subjectivity could lend itself to inconsistent and unauditible patterns of revenue recognition. We also believe that it will be difficult for financial statement users to reliably interpret the underlying causes of changes in contract revenue in any given reporting period. We acknowledge that the FASB has rejected the premiums due approach as outlined in paragraph BC299 of the exposure draft. Therefore, in absence of an objective premiums due measurement method of recognizing revenue, we suggest that the FASB provide implementation guidance, such as the building block elements approach proposed by the ACLI, that illustrates a more straightforward and objective method for measuring the satisfaction of performance obligations for determining revenue.

Question 47 - Costs and Complexities

Questions for Preparers

Question 47: Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

Response: We highlighted our responses to the specific questions outlined above to illustrate our view of what aspects of the guidance in the proposed Update should be modified to make the proposal more cost effective and to provide the most meaningful information to financial statement users. These expected costs include the following:

One-time costs

- Purchase of completely redesigned valuation systems that are not in existence today
- Integration of new valuation systems with financial reporting and business operations systems
- Information technology and finance resources necessary to maintain multiple sets of books during the transition period
- Education and training of operations, finance, actuarial, tax, and investor relations personnel
- Costs to implement new internal controls over financial reporting
- Costs to re-evaluate original assumptions at contract inception for policies in force upon adoption of the proposed Update in order to record transition adjustments
- Incremental independent auditor fees to audit multiple sets of books during the transition period and new critical accounting estimates upon adoption

Ongoing costs

- Licensing fees for new actuarial systems needed to maintain books and records
- Data storage resources to maintain and access significant incremental volumes of data needed to prepare complex actuarial estimates and extensive disclosures
- Incremental actuarial resources necessary to re-measure and account for complex and changing insurance contract values
- Incremental actuarial and accounting resources to maintain incremental disclosure requirements
- Costs to maintain new internal controls over financial reporting
- Increased cost to access capital due to additional resources necessary to educate and provide the information requested by creditors and investors

In closing, we thank the FASB for the opportunity to comment on the exposure draft and respectfully encourage the FASB to give thoughtful consideration to the responses and suggested modifications included in this letter and the letter published by the ACLI.

Respectfully submitted,



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