



December 15, 2016

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: File Reference No. 2016-330, Proposed Accounting Standards Update, *Targeted Improvements to the Accounting for Long-Duration Contracts (Topic 944)*

Dear Ms. Susan M. Cospers:

Aetna Inc. (we, our or us) is one of the leading publicly-traded managed care companies in the United States, with annual revenue of approximately \$60 billion in 2015. We provide health insurance products and related services to approximately 23 million medical members. Our customers include employer groups, individuals, seniors, 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, vision, term life, short and long-term disability, long-term care and retirement products, including annuities. Certain of our products, such as long-term care, are accounted for as long-duration insurance products.

We have been actively engaged in and have monitored the evolution of the Financial Accounting Standards Board's ("FASB") Insurance Contracts project and are pleased to provide our comments on the proposed targeted improvements to the accounting standard for long-duration insurance contracts ("Proposed Update").

Executive Summary

We commend the FASB on the progress made to date and continue to support its approach to improve the accounting and disclosure related to long-duration contracts with targeted changes to the current model. We believe the Proposed Update's intent to "unlock" the cash flow assumptions set at a contract inception is appropriate to provide more meaningful information regarding the contractual cash flows. We also understand the objective of the proposed change to the discount rate so that it is based on a rate that more accurately reflects the underlying obligations. However, we have identified some areas of concern and outlined several recommendations for improvement. Specifically, we suggest the FASB:

- (1) Outline a more principles-based approach to govern the methodology for estimating future cash flows;
- (2) Consider not restricting companies to the use of a high-quality fixed-income instrument yield when discounting future obligations; and
- (3) Reconsider the cost-benefit analysis associated with the implications of applying the suggested methodology as well as the proposed required disclosures.

Each of these positions is more fully described below in our response to the related questions.

Response to Questions in the Proposed Update

Question 2 (and 8) - Cash flow assumption update method and presentation: Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

We agree with the requirement to unlock cash flow assumptions on long-duration contracts. However, we have specific concerns regarding the prescriptive methodology in the Proposed Update. We recommend that the FASB provide an approach that would be more principles-based to allow companies flexibility in the underlying calculation methodologies they utilize. We believe that approach would more appropriately reflect specific situations and allow the use of consistent methodologies to calculate insurance obligations for the purposes of tax, statutory and U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). Consider the following observations related to the proposed measurement methodologies:

Underlying Basis for Calculation

Our current method for calculating net premiums would change from a seriatim net premium prospective methodology ("Individual Basis") to an aggregate net premium retrospective methodology ("Cohort Basis"). Under the current approach, net premium as calculated for each individual contract, takes into consideration contract specific data including gender, issue age and plan design, and is updated for new or additional coverage. The individual net premiums are then summed to an aggregate net premium. The Cohort Basis would calculate net premium in the aggregate, which would not take into consideration the aforementioned variables associated with each contract. As the net premium on an individual contract may greatly differ, we believe that net premium is more accurately calculated under the Individual Basis. The following illustrates at a high level how the individual variables affect the net premium calculation.

Certain plan provisions are subject to more risk than others. For example, group long-term care gross premiums do not distinguish between genders, but individual net premiums must be gender specific. When net premiums are calculated on an Individual Basis, the actuarial system automatically adjusts the total net premium for changes in the in-force membership by gender. Utilizing the Cohort Basis will not automatically update net premium for these changes in assumptions.

Further, the Proposed Update would require the net premium to be a retrospective calculation requiring insurers to maintain historical information on members that have lapsed as well as those that are in-force. The Individual Basis only calculates net premium on in-force contracts at the valuation date and does not require maintaining historical information. The Individual Basis automatically corrects the net premium calculation for portfolio changes. Actual historical experience primarily relates to members who have terminated due to death. We believe the provisions of the Proposed Update should apply only to current members in-force, thereby making it unnecessary to recreate historical cash flows under the proposed retrospective methodology.

Deviations from Statutory and Tax Accounting

We calculate net premiums utilizing the Individual Basis for U.S. GAAP, Statutory Accounting Practices ("SAP") and tax accounting basis. If we adopted the Proposed Update, the Cohort Basis would be used to calculate net premium on a U.S. GAAP basis, and the Individual Basis would be utilized to calculate net premium for SAP and tax accounting bases. The result would create further deviations among U.S. GAAP, SAP and tax accounting bases, which would introduce further complexity into an insurer's accounting model. We believe it is necessary to have minimal differences among these accounting bases to reduce complexity, which could be achieved by allowing companies the appropriate flexibility to align the Proposed Update with methods currently used to calculate net premium.

For the reasons outlined above, we recommend the FASB consider allowing companies flexibility in determining the underlying methodology for the calculation of net premium.

Question 4 (and 10) - Discount Rate Assumption: Do you agree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?

We agree with unlocking the discount rate assumptions. However, we believe the Proposed Update is too restrictive, because it does not allow companies to reflect carrier-specific differences in portfolio management, and in turn the discount rate to be used. We feel that consistent with all other assumptions, companies should have the flexibility to utilize their best estimate of the investment portfolio yield that supports their insurance obligation.

We understand the FASB's objective to require the use of a discount rate that more appropriately reflects the nature of the underlying obligations. Although we still believe an investment yield is the appropriate discount rate to utilize, should the FASB ultimately decide to require the use of a discount rate that reflects solely the characteristics of the insurance obligation, we feel the requirement to use a high-quality fixed-income instrument yield ("Proposed Discount Rate") to discount insurance obligations would not be appropriate given the illiquid nature of the underlying obligations. Insurance obligations related to long-duration contracts have liquidity risk which we believe should be reflected in the discount rate utilized. We believe the Proposed Discount Rate does not consider the liquidity risk associated with long-duration contract insurance obligations, as there is generally no or very limited liquidity risk associated with high-quality fixed-income instruments' yields. We suggest the FASB reconsider the Proposed Discount Rate, at a minimum, to adjust for liquidity risk, by allowing companies to discount insurance

obligations using fixed-income instrument yields with similar levels of liquidity characteristics, or make applicable adjustments to reflect that characteristic rate differential.

Question 18 – Proposed Requirements: Do you agree that the presentation and disclosure requirements included in the proposed amendments would provide decision-useful information? If not, which presentation and/or disclosure requirement or requirements would you change and why?

While we agree the disclosures would provide incremental decision-useful information, we would need to develop systems that could produce the necessary information. Further, given the long-term nature of the information in the disclosures, quarterly disclosure does not appear to add significant informational value when considered in the context of annual presentation. In addition, the proposed disclosures appear to require further disaggregation basis than currently required for statutory purposes. This would create a need to either obtain and maintain incremental information and/or reconcile information provided for statutory versus U.S. GAAP purposes.

Question 20 – Implementation Date: The Board is interested in understanding the key drivers affecting the timing of implementation. What are those key drivers, and how do they affect the time it will take to implement the proposed amendments? Should the effective date be the same for both public entities and nonpublic entities?

Since January 1, 2014, the FASB has issued over 50 new standards including updates from the Private Company Council and Emerging Issues Task Force. Certain of these new standards require significant time and resources to assess and apply to our financial statements, such as the standards on revenue recognition, leases and financial instruments. With the significant efforts associated with these recently issued accounting standards, we believe insurers would need at least four years from when the final standard is issued to assess and update their financial statements, as well as develop any systems necessary to meet the Proposed Update's requirements. Early adoption should be permitted if desired.

Question 21 – Transition methods: Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?

We believe the requirement to apply the Proposed Update on a retrospective basis is impracticable due to the nature of long-duration contracts. For example, our first long-term care contract relates to business that was written approximately 30 years ago and remains in-force. The Proposed Update would require an insurer to retrospectively apply the standard to establish the discount rate at contract inception, and would further require the insurer to maintain contract information for each contract in-force until the contract terminates. To reduce this burden, we recommend the FASB permits a prospective application of the standard without additional requirements regarding impracticability.

Question 23 – Costs and Complexities: Describe the nature of the incremental costs of adopting the proposed amendments, distinguishing between one-time costs and ongoing costs. Explain which aspects of the proposed amendments are driving those costs and include ideas to make the proposals more cost effective.

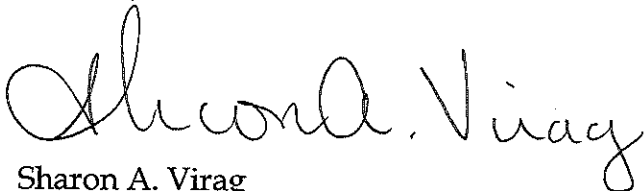
Applying the Proposed Update would come with additional costs to insurers. The following examples demonstrate how insurers could be impacted:

- There would be a need to modify our systems and applications to accommodate for calculating net premium using a Cohort Basis. Our current systems are designed to calculate net premium on an Individual Basis, which, as noted above, is a more accurate method for calculating net premium. We believe the costs for these modifications could be quite meaningful and would further outweigh any perceived benefits due to the decrease in accuracy.
- To accurately record the effects of changes to the discount rate and other assumptions, we would need to create data warehouses to store contract inception information and accumulate data that has not been previously captured in our actuarial systems. This information would need to be maintained in the data warehouses over a significant period of time, which would create additional costs prior to and subsequent to implementation. As noted above, long-duration insurance obligations may cover contracts for decades; and trying to retrospectively apply the Proposed Update would add meaningful costs for us to obtain the original discount rates at contract inception.
- The adoption of the Proposed Update is a significant undertaking that will require dedication of significant time and efforts by our accountants, actuaries, management, technology solutions personnel, Board of Directors, and internal and external auditors to make certain that these changes are appropriately captured, examined and tested to validate that we are gathering, analyzing, and presenting our financial information appropriately and clearly.

We thank you for the opportunity to provide our observations and suggestions. We hope that in considering these views at the outset of its re-deliberation process, the FASB will be able to plan specific activities, such as outreach meetings and field visits that will enable robust research to be conducted in these areas prior to issuance of a final standard.

We appreciate the opportunity to provide our views to the FASB and would be pleased to discuss our comments further.

Sincerely,



Sharon A. Virag

Aetna Inc.

Vice President, Controllor and Chief Accounting Officer