



Ronald M. Olejniczak, CPA
Vice President and Controller

OlejniczakR@aetna.com
tel: 860-273-7231
fax: 860-273-2019
151 Farmington Avenue, RT21
Hartford, CT 06156

August 24, 2006

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 74

Re: File Reference No. 1325-100

Dear Ms. Bielstein:

Aetna Inc. ("Aetna") appreciates the opportunity to provide our views on the Financial Accounting Standards Board's (the "Board") Invitation to Comment, "*Bifurcation of Insurance and Reinsurance for Financial Reporting*" (the "ITC"). We are one of the nation's leading diversified health care benefits companies, offering a broad range of traditional and consumer-directed health insurance products and related services. Our customers include employer groups, individuals, college students, part-time and hourly workers, health plans and government-sponsored plans.

Aetna is a member of Financial Executives International, serving on its Committee on Corporate Reporting ("CCR"). As a member of CCR, we were actively involved in CCR's August 24, 2006 letter to the Board commenting on the ITC. In its letter, CCR provided responses to the specific issues addressed by the Board. Rather than reiterating those responses in this letter, we respectfully refer to CCR's letter. Consequently, our response is limited to our overall observations on the ITC.

Recent Issues Do Not Warrant Wholesale Changes

Recently, we have observed several high profile financial statement restatements which have resulted from preparers improperly applying accounting judgments to certain insurance and reinsurance contracts. We believe these restatements emphasize the need for additional guidance related to determining whether a contract transfers significant risk to the insurer; but they do not necessitate proposed wholesale changes in the accounting model for insurance and reinsurance.

Furthermore, we are not clear how the accounting model proposed in the ITC will address the issues identified with so-called “finite risk insurance.” We believe the issues with the accounting for such contracts are unique to those contracts, and are not present in a traditional insurance contract, particularly individual and group health and life insurance policies. The accounting model used for these insurance contracts is understood by both preparers and financial statement users, and a fundamental change in this working model is neither justified nor an improvement.

Proposed Solution Will Adversely Affect Financial Reporting

The threshold question raised in the ITC is “*whether bifurcation would improve financial reporting by providing users of financial statements with better information about the economic substance of insurance arrangements relative to the information provided by the current accounting for these arrangements.*” We do not believe bifurcation would improve financial reporting; rather we believe bifurcating insurance contracts into insurance and deposit components will result in less understandable, decision-useful information than is currently available to users of financial statements.

We developed our views on the concept of bifurcation after attempting to model a representative group health insurance contract using the bifurcation methods introduced in the ITC. Admittedly, our models are basic; however we identified several practical issues we believe would be faced by both insurers and policyholders.

First, bifurcation would complicate the insurer’s financial statements, significantly impacting a users’ ability to predict future cash flows. Comparability also is adversely affected as each company may not apply assumptions consistent with others when determining the appropriate degree of bifurcation, not to mention the difficulties we anticipate with “day two” accounting. Ultimately, bifurcation would yield financial results for an insurance company that are less transparent. Further, key performance metrics used will be subject to a much higher degree of volatility, but bifurcation would likely have little to no impact on reported net income.

Secondly, based on guidance provided in paragraph 58 of the ITC, most employer groups that sponsor a health insurance product would have to evaluate whether such contract must be bifurcated. To do so properly would entail assumptions regarding anticipated claims or another mechanism to measure risk transferred to the insurer which the FASB has not yet modeled. In many cases, the policyholder may not have sufficient information to make these difficult judgments. Furthermore, we believe the subsequent accounting for such bifurcated contracts will require policyholders to allocate claim payments between deposit and insurance components in order to properly match its expenses with the covered policy period. Typically, policyholders do not have access to such information as they are currently not required to have such detailed policy information.

Overall, we believe the concept of bifurcation will result in an impracticable standard that preparers will struggle to apply. In consequence, methods used to bifurcate insurance transactions through the life of the insurance contract will be inconsistently

applied period to period and between companies, resulting in less transparent, understandable and ultimately less useable financial statements.

Other Observations

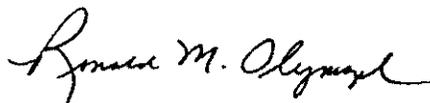
We also believe the ITC inappropriately limits insurance contracts that may be identified as “unequivocally transferring significant insurance risk” to contracts with individuals, specifically excluding group contracts, such as group health or life insurance, from such distinction. Individual policies are priced based on a pooling of risks with other individual policies and should not be viewed differently than a group contract, as the concept of underwriting and pricing is fundamentally the same. For example, individual and group health contracts are purchased by policyholders with the same intent: in exchange for a premium, the insurance company retains the risk (and obligations) of the medical claims incurred.

The ITC also uses the term “dollar-trading” in providing a distinction between a group health contract and an individual health contract. We are not familiar with this term. Furthermore, we do not agree that group and individual contracts are fundamentally different. Specifically, we believe that the two forms of contracts, in fact, transfer significant risk from the policyholder to the insurer. We would be pleased to help the Board and its staff explore this concept in greater detail should the Board pursue this project further.

We are pleased with the approach the Board has taken in its effort to improve accounting for insurance and reinsurance. Given the inherent complexities of insurance and reinsurance accounting, it is prudent for the Board to consider an extensive deliberation process (including field testing of concepts before, during and after any exposure draft is released) before making any changes to the current accounting and reporting environment. We offer our assistance in helping the Board evaluate any alternatives it considers to the current insurance and reinsurance accounting models. Further, we recommend the Board continue to actively engage insurers, policyholders and financial statement users to ensure potential consequences of any such changes are considered before authoritative literature is released.

We appreciate your consideration of our views on the ITC. We would be pleased to discuss our comments further with you or members of your staff. If you have any questions regarding this letter, please feel free to contact me.

Sincerely,



Ronald M. Olejniczak
Vice President and Controller