

TO: Financial Accounting Standards Board

FROM: Clarian Health DATE: May 10, 2010

SUBJECT: Proposed Accounting Standards Update – Presentation of Insurance Claims and

Related Insurance Recoveries

Overview

The Financial Standards Accounting Board ("FASB") is proposing in this Update that health care entities should not net insurance recoveries against a related claim liability. In addition, the claim liability would be determined without consideration of insurance recoveries. A cumulative-effect adjustment would be recognized in the opening retained earnings in the period of adoption if a difference exists between any liabilities and insurance receivables recorded as a result of applying this proposed Update.

Below are questions asked by the FASB on this proposed Update and our responses.

Question 1: Do you agree that a health care entity should not offset anticipated insurance recoveries against the related medical malpractice claim or similar liability? If not, why not?

Insurance recoveries should be offset against the related medical malpractice claim or similar liability and considered when determining the claim liability. If recoveries were not offset against the claim liability or not considered in calculating the claim liability, it would mislead financial statement users to believe an entity has more of a liability for claims than it actually does (i.e. an entity will pay much less than what is suggested by its claim liability on its balance sheet). In order to provide more useful information to financial statement users on claim liability, it is suggested to require the amount of recoveries netted against the liability to be disclosed in the footnotes. The net amount reflects the best estimate of the ultimate settlement cost to the organization, and thus represents a balance more consistent with the fair value of the obligation—that is, the value that would be paid to transfer this obligation (including an assignment of insurance recoveries) to a market participant.

Question 2: Do you agree that the amendments in this proposed Update should be applied as of the beginning of the period of adoption with any difference between recognized liabilities and insurance receivables recognized as a cumulative-effect adjustment? If not, why not?

If this Update would become effective, it should be applied as of the beginning of the period of adoption.

Question 3: Do you anticipate the need for significant changes in accounting systems or information gathering to implement the provisions of this proposed Update? If yes, please explain.

Significant changes will be needed in the methodology used by Clarian Health's actuaries to calculate the claim liability if recoveries are no longer considered in this calculation. Our actuaries do not currently calculate recoveries separately for the gross amount of the claim. If an organization is required to use a gross claim calculation, the calculation would be judgmental as the definition of gross amount of the claims has not been explicitly defined. It would also be necessary to evaluate the impact of The Indiana State Patient Compensation Fund (or similar entities in other states) as it relates to malpractice claims.

Question 4: How much time do you believe would be necessary for you to efficiently implement the provisions of this proposed Update?

At this time, it would be difficult to estimate the time needed to implement this Update. See response to question three.