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Financial Accounting Standards Board  
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Dear Sir:

CIGNA Corporation appreciates the opportunity to share our views on the Financial Accounting Standards Board's (FASB) Exposure Draft of the proposed Accounting Standards Update ("proposed Update" or "ED ") of Topic 720, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers*. CIGNA is one of the largest investor-owned health care and related benefits organizations in the United States. Key product lines include medical coverages and related specialty health care products and services such as pharmacy, behavioral health, dental benefits and disease management. Our comments regarding this ED are summarized immediately below, followed by a more in depth discussion by responding to the questions posed in the ED.

Similar to the pharmaceutical companies that manufacture or import branded prescription drugs sold to government programs in 2011, certain health insurers will be assessed an annual fee under the Patient Protection and Affordable Care Act (PPACA) beginning in 2014. We believe that accounting and reporting for the annual fee assessed on health insurance providers should be included within the scope of this proposed Update. As such, we believe that upon recognition of the liability, the annual fee assessed to a covered entity providing health insurance in 2014 should be recorded as an asset and amortized ratably in the year due as an operating expense.

*Scoping (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)?*

CIGNA Response:

We do not agree that the scope of this proposed guidance should be limited to the fees to be paid by pharmaceutical manufacturers. We believe that the fees to be paid by health insurers should also be included within the scope of the proposed guidance. The annual fee being imposed on health insurers has many similarities to the pharmaceutical companies' annual fee as follows:

- Both are assessed only to covered entities with product deliveries (branded drugs to or under government programs or health insurance coverage for any United States health risk) in the year of assessment
- Both are calculated using a ratio of the covered entity's prior year product revenues to total product revenues by all covered entities in that prior year
- Both are payable no later than September 30 of the applicable calendar year

- Both are calculated by the Secretary of the Treasury
- Both are non-deductible excise taxes
- Both allow the covered entity payor to continue selling their product in the year of assessment. As such, these fees accomplish a similar goal: to fund various provisions of the PPACA in 2014 and beyond.

ASC 405-30, *Insurance-Related Assessments*, provides guidance to entities subject to insurance-related assessments concerning the recognition of such liabilities. However, we do not believe that this guidance clearly specifies the timing and pattern of expense recognition for the assessment on covered health insurance providers addressed in the PPACA. We believe that including health insurance providers in the scope of this proposed Update will clarify the timing and pattern of expense recognition and avoid potential diversity in the reporting for fees addressed in the PPACA.

Because annual fees payable by covered health insurance entities serve the same purpose and are assessed in the same manner as annual fees payable by covered pharmaceutical manufacturers (revenue-raising activity of the government), they are appropriately viewed as a cost of doing business in the period assessed. We believe that these fees assessed to health insurance providers should be accounted for in the same manner and recommend that the scope of this proposed Update be expanded to include them.

Recognition (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?*

CIGNA Response: We agree with the ED that the fee should be recognized over the calendar year the fee is payable using an appropriate allocation method. We view the annual fee as a cost of doing business as a covered entity for the *entire* year, not just in the period in which the company becomes a covered entity (i.e. at the first provision of insurance coverage in the year in which the fee is due) and it analogous to an annual property tax or annual licensing fee.

While we agree with the proposed expense recognition over the calendar year the fee is payable, we believe that diversity in practice may also arise because ASC 405-30 does not appear to clearly address the timing of the liability recognition. We believe diversity may develop because the types of insurance-related assessments used to provide accounting guidance in ASC 405-30 are not clearly the same as for the fee assessment in the PPACA.

We believe that the most clearly applicable portion of ASC 405-30 is paragraph 25-6a that addresses the accounting for retrospective-premium-based guaranty-fund assessments. This appears most applicable because the annual fee assessed by the PPACA is calculated based on premiums written in the year prior to the assessment - similar to guaranty-funds covering benefit payments for insolvent life, annuity and health insurance entities. Under this fact pattern in paragraph 25-6a, the liability for such assessments should be recognized when a formal determination of insolvency occurs and the amount can be reasonably estimated. In the circumstance of the annual PPACA fee, the covered entity becomes obligated for the fee when it provides health insurance for any U. S. health risk **during the calendar year in which the fee is due**. This is comparable to when a formal determination of insolvency occurs in the fact pattern addressed in ASC 405-30. Another

possible application of ASC 405-30 could be paragraph 25-7 that specifies that administrative-type assessments are generally expensed in the period assessed – which would be 2014 for PPACA fees payable by covered health insurance entities.

Therefore, we recommend that proposed paragraph 720-50-25-1 be clarified as follows:

***'In the period the covered entity delivers products or services that obligate the entity for payment of the annual fee, the liability for the annual fee described in paragraph 720-50-05-1 shall be recognized along with an asset which should be amortized over the calendar year the fee is payable using a straight-line method of allocation unless another method better allocates the annual fee is over the calendar year the fee is payable.'***

Classification (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?*

CIGNA Response: We view the annual fee as a cost of doing business as a covered entity under the PPACA. As such, we believe that the proposed classification as an operating expense is appropriate by any covered entity, including both pharmaceutical companies and health insurers of United States health risks.

Disclosures (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.*

CIGNA Response: We agree with the ED that no additional disclosures are necessary upon adoption or after the adoption of the amendments. Public reporting entities would, of course, consider the future expected effects of these assessments in their disclosures concerning their finalized but unimplemented new accounting requirements and in their various required Management's Discussion and Analysis disclosures.

If we can provide further information or clarification of our comments, please contact me (215-761-1170) or Nancy Ruffino (860-226-4632).

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Sincerely,



Mary T. Hoeltzel  
Vice President and Chief Accounting Officer