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Dear FASB Technical Director,

Cigna Corporation (“Cigna”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB”) proposed Accounting Standards Update (revised), Revenue Recognition (Topic 605), Revenue from Contracts with Customers (the “ED” or “proposals”). This proposal was separately exposed for comment by both the FASB and the International Accounting Standards Board (“IASB”) (collectively the “Boards”), and we understand that the Boards will share and jointly consider all comment letters received.

Cigna and its subsidiaries constitute one of the largest investor-owned health service organizations in the United States, and have operations in selected international markets. As of December 31, 2011, Cigna held \$43 billion in assets (excluding separate accounts). As investors in approximately \$22 billion of primarily investment grade public and private debt securities and commercial mortgage loans, Cigna's management team is both a preparer and user of financial information on a daily basis. Our comments that follow represent the joint perspectives of our accountants/preparers and investment professionals/users.

**Cigna’s service model (integrated customer service contracts managed as a single product offering)**

In addition to offering licensed insurance products, Cigna contracts with employers, unions and other groups sponsoring self-insured plans to administer claims and perform other plan-related services (administrative services only or “ASO”). Cigna collects administrative service fees in exchange for providing these self-insured plans with access to Cigna’s provider networks and for providing other services and programs including claim administration, quality management, utilization management, and cost containment. Cigna frequently also sells specialty products such health advocacy, 24-hour help line, 24/7 call center, case management, disease management, prescription drug and mail order pharmacy and behavioral health care management services (through its provider networks) - or provides any combination of these services. Each customer can select from a broad array of services that are combined and priced to achieve a reasonable aggregated profit margin and to leverage cost synergies across similar contracts. Cigna prices integrated customer contracts based on the specific combination of services being purchased as well as each customer’s unique profile. Each package of products, whether individually or in combination, provides the customer with continuous access to Cigna’s services and/or provider networks. Because these contracts are typically sold to a sponsoring employer (or equivalent group), some of the sponsor’s individual employees covered under the contract are reasonably expected

to utilize both Cigna's ASO and most specialty services each and every day. Certain specialty services are priced and delivered at a point in time.

Cigna's non-insurance product offerings can therefore be broadly categorized into two groupings; ASO and specialty. In most cases, fees are determined, billed and collected monthly and are variable (either a per member per month fee, or other amount, such as a percent of savings generated for customers as the result of cost containment efforts). In accordance with U.S. GAAP, Cigna currently recognizes revenue for these contracts ratably over their duration based on per member per month charges consistent with the obligation to provide health-related services to individual members each and every day, except for any point-in-time services that are measured, billed and recognized concurrent with delivery based on contract pricing.

### **General Concerns and Recommendations**

We support the Boards' objective to create a robust framework for revenue recognition "to report useful information to users of its financial statements about the amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer." The Boards indicate that a single revenue model would promote increased comparability between companies and across industries and capital markets and simplify the preparation of financial statements. However, we believe any changes to the existing U.S. GAAP or IFRS revenue accounting frameworks must also reflect the differing business needs of management and users across different entities. We continue to believe that the single model put forward will grossly overcomplicate revenue accounting in some service industries by placing too much emphasis on the aggregation of contracts and the detail analysis of multiple element arrangements - particularly if entities do not manage their integrated customer service contracts in a disaggregated manner.

The requirements to identify and separately measure discrete performance obligations will significantly increase the complexity and cost of preparing financial statements for entities providing integrated customer service contracts, without adding commensurate benefit for their financial statement users. We recommend that the Boards acknowledge that when an integrated services contract identifies various services with explicit pricing that drives billing concurrent with the customer's receipt of benefits, the detailed, laborious 5-step process delineated by the ED may not be required to produce appropriate timing, measurement and presentation of revenues to achieve good insight by the users of financial information.

In addition, we commend the Boards' decision to limit the scope of the onerous test by reference to time, so that services delivered over 12 months or less will not be required to apply an onerous test. We would also recommend to the Board to add language that contracts that are cancellable by the Company with a reasonable notice period (such as 60 days or less) and without penalty should not be required to perform the onerous test.

While we agree with the new scope limitation, the Board is recommending that companies use individual performance obligations within a contract as the unit of account for this test. This is inconsistent with how our integrated contracts are priced and managed. Pricing is considered with respect to the full array of services provided to the customer and to the contract's potential benefits to the Company's overall business, not at the tedious level of individual contract elements. In addition, because we do not manage our business at this individual performance obligation level, the necessary data is not available in our financial systems to perform this test as proposed, particularly with respect to expenses because of our shared services operating structure. Lastly, in our view, if certain individual performance obligations produce losses, but the bundle of services provided over time do not, the portrayal of early losses and later profits is not helpful to the users of the financial statements and is potentially misleading. We

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prefer that the portfolio (as expressed in prior comment letters) or, if that is not acceptable, the customer contract be used as the unit of account for the onerous test because it better reflects the economics of the arrangement with the customer and addresses our pain points with respect to consistency with pricing and, to a certain degree, will lessen the costs of implementation.

Finally, for contracts that deliver integrated services over a time periods of twelve months or less, we urge the Boards to delete the following disclosure requirements: 1) Reconciliation of contract balances and 2) Disaggregation of revenues into performance obligations that arise from bundled contracts. This recommendation is consistent with our theme that one model to fit all businesses must not overcomplicate the measuring and reporting of revenue for straightforward service contracts, such as the delivery of health-related services.

## Responses to Specific Questions

**Question 1:** Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Response: Yes, we agree with the criteria that the Boards propose to identify when control transfers over time. However, we continue to believe that in general, the proposed model significantly overcomplicates revenue recognition for what we perceive to be our very simple, straightforward contracts. We urge the Board to explicitly acknowledge in the exposure draft that use of contract pricing for the timing and measurement of services is a practical expedient to the 5-step guidance provided that the amount of consideration contractually billable reflects the amount to which the entity is reasonably assured to be entitled to for the delivery of services each reporting period. Paragraph 3 clearly states the objective is to “recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services” and we believe that our current accounting model reports revenues in our financials accurately, completely, simply and cost-effectively.

Please consider the following example. A company sells several distinct services, most of them delivered evenly over the course of 12 months and integrated as Bundle A along with Service B that is delivered at specific points in time during the same 12 months. Most of these services (including those that are bundled) can be sold separately and each carries variable consideration. Variable consideration for Bundle A is a per member per month fee for each service, and consideration for Service B is a fee per value of service delivered (% of \$ claim savings generated for a customer, for example).

As proposed by the exposure draft, two separate performance obligations must be identified and used to drive the revenue recognition pattern for the contract (Bundle A and Service B). Service B must be considered a separate performance obligation because it can be sold separately and because the practical expedient that would allow you to combine performance obligations (paragraph 30) cannot be applied for services that are not delivered in the same pattern. As above, Service B is provided at specific points in time versus continuously.

Relative to allocating transaction price to individual performance obligations, consider that for this example there is an implied discount of \$20 (negotiated and indicated in the contract pricing as related to Bundle A) that under the Exposure Draft must be allocated to each of Bundle A and Service B. As related to this discount, the Company must consider whether to use relative standalone selling prices to allocate the discount to each performance obligation, apply the residual method (if appropriate) or follow guidance in paragraph 76 which states that contractual contingent consideration should be allocated to a specific performance obligation in certain circumstances when the resulting accounting is in line with the stated objective (provided in paragraph 1 of our response). We believe that in this example either the residual method or the paragraph 76 approach would be the likely and most appropriate method for allocating the discount inherent in the contract because of how we price (discount is generally provided on Bundle A) and given our rights and obligations under the contract (we are entitled to contingent consideration only at the point and to the extent that it is earned and services are delivered). Following either of these approaches would bring the accounting back in line with contracted rates and the monthly amount billed.

While we don't dispute the result, this example highlights that there are a series of long and confusing steps that the proposal will require for thousands of contracts that are each priced individually to reflect both the unique bundle of services provided to the customer and the customer demographics. However, in each case and for each separate performance obligation the Company is simply entitled to the monthly amount billed for services rendered. While in our view, application of the proposal might not shift revenue recognition patterns, we believe it would require a very significant and costly work effort to support this assertion, along with potential changes to systems and processes. In our view, the proposal continues to be confusing and represents a long and arduous path that is difficult to understand and costly and complex to administer, yet ultimately is likely to lead to the same or similar accounting result when compared to today's model for our contracts. For these reasons, we do not see the benefit provided to financial statement users and recommend that the Boards incorporate an upfront practical expedient in the exposure draft that indicates that contract pricing could be used for revenue recognition provided that the amount of consideration billable reflects the amount to which the entity is reasonably assured to be entitled to for delivery of services each reporting period.

**Question 2:** Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

Response: No, we do not. We believe that revenue recognition should not address collection activities either for measurement, or for presentation. We believe those activities should be addressed in the financial instruments project consistent with current accounting standards. Collection of receivables is not a revenue activity, but a cost of doing business and should be presented as such in the Statement of Comprehensive Income.

**Question 3:** Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Response: Yes, we agree that when considering variable consideration, the constraint in paragraph 81 is appropriate (amount to which the entity is reasonably assured to be entitled.) We believe that the perceived need for this constraint reflects the complexity of the model proposed by the Boards and further supports our recommendation that an explicit practical expedient be acknowledged in a final standard as noted in our response to Question 1 above.

**Question 4:** For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Response: Yes, we agree with the proposed scope; however, as indicated in our general comments, we recommend that the Boards reconsider the unit of account to appropriately prevent reporting early losses and later profits for contracts that may contain loss portions, but are profit making in the aggregate. The Boards indicate in the Basis of Conclusions that changing the unit of account, as suggested by many respondents to the first Exposure Draft in 2010, would add complexity and be inconsistent with recognizing revenue at the performance obligation level. However, because we believe that a practical expedient should be clearly acknowledged for business such as described in our service model and

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example described above, the Boards should also recognize that the portfolio (as expressed in prior comment letters) or, if that is not acceptable, the customer contract be used as the level of account for the onerous test and provide for a similar practical expedient.

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

**Response:** No, we do not believe that tabular reconciliations for contract assets and liabilities, onerous liabilities and contract costs or remaining performance obligations should be required unless there are material changes. Furthermore, we believe such changes could be discussed qualitatively. We believe that disclosures as proposed will demand a multitude of systems and process development and overload the users of financial information with more detail than can be readily understood and used to make investment decisions. Our internal investment professionals do not currently receive such data in evaluating potential private placement investments or when negotiating contractual terms to restructure such investments, nor do they believe such details would help in their decision making.

Thank you for your attention to our concerns. If we can provide further information or clarification of our comments, please call me (215-761-1170) or Nancy Ruffino (860-226-4632).

Sincerely,



Mary T. Hoeltzel