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May 16, 2012

Ms. Jennifer M. Weiner, Senior Practice Fellow
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

Re: Recognition of unearned premium over the claim period under the premium allocation approach for group disability insurance contracts.

Dear Ms. Weiner,

It was a pleasure to see you again, and we appreciate the opportunity to briefly raise our concern with group contracts with Larry, Chris and you.

As we mentioned, we believe that group contracts would fall under the premium allocation approach ("PAA"). The reason is that group contracts are written on the basis of a one year renewal period but typically offer an initial rate guarantee period for one to three years. However, the contract language is written so that Unum has the right or the practical ability to reassess the risk underwritten of the group and thus set a price that fully reflects changes in those underwriting risks should they change. As such, it is not likely that during the period before a claim is incurred there will be a significant change in the expectations of net cash flows or other measurement inputs required to fulfill the contract. Additionally, there is no significant judgment required to allocate the premium to each reporting period. For these reasons, we do not believe that the Building Block Approach ("BBA") would be applicable, and thus the PAA would apply.

In the group employer market, the contract is similar in nature to a P&C type contract that is short duration in nature for the premium payment period. However, for certain products such as group long-term disability, the claim period has an average duration of approximately 4 to 5 years and requires a claims servicing period subsequent to the premium paying period. Under the PAA, a liability is established for the unearned premium period only, and premium revenue is fully recognized over the period of the contract, which is typically one year. (Note: In reality, the premium is set each month based on the workforce population, and premium is therefore recognized as it is billed for group contracts). All margins which are embedded in the pricing of such products are therefore reflected over the initial coverage period. The implicit assumption is that most claims on contracts that fall under the PAA are typically resolved within a 12 to 18 month period, and the margin is recognized over an approximate 12 month period which aligns with the release of risk. Therefore, under the PAA, the risk is recognized at a pace comparable to the earned premium pace. This assumption is appropriate for most P&C type policies, but we believe it has an unintended consequence on products with longer liability duration in that it does not match the margin recognition with the slower pace of risk release. Specifically, no form of revenue or margin recognition would exist during the 4 or 5 year claim period.

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We believe there is a similar situation with other longer claim payment coverages such as workers' compensation insurance. Based upon the Boards' work on the project thus far, this does not seem to align with the revenue recognition standard nor the basis for conclusions related to revenue recognition or recognition of the single margin under the BBA or PAA.

Accordingly, we would appreciate the Staff's and Board's consideration of this issue and would propose that the Board consider modifying the mechanics of the PAA unearned premium liability, or premium revenue recognition, such that it is not only recognized over the contract period, but also over the period in which the insurer has a liability to service the claim liability if such period extends significantly past the premium paying period. The recognition of the unearned premium liability, or premium revenue, should approximate the methodology proposed in recognition of the single margin under the BBA in that the insurer satisfies its performance obligation as it is released from exposure to risk as evidenced by a reduction in the variability of cash outflows. As outlined in the "Summary of Decisions Reached to Date" as of April 18, 2012, the FASB tentatively decided that an insurer is released from risk for purposes of recognizing the single margin in profit:

1. If the variability of the cash flows of a specified uncertain future event is primarily due to timing of that event, an insurer is released from risk on the basis of reduced uncertainty in the timing of the specified event.

2. If the variability of the cash flows of a specified uncertain future event is primarily due to the frequency and severity of that event, an insurer is released from risk as variability in the cash flows is reduced as information about expected cash flows becomes more known throughout the life cycle of the contract.

Applying these principles outlined above to the type of contract under consideration would imply that a component of the unearned premium liability should reflect that a specific margin, which would be recognized over the contract period, would release as certainty is gained related to the frequency or incidence of claim, as well as the severity of claim. The single margin should be recognized as the risk of variability is reduced and reach zero at the point that there is no longer any risk in determining what the ultimate liability amount would be.

The above approach may have been the Board's intent based upon a similar consideration of discounting and interest accretion being applied to reflect the time value of money to the unearned premium if there was a significant financing component. It is not clear in the "Summary of Decisions Reached to Date" if the Board's intent was to carry the same logic over to considerations related to release of the single margin element. Perhaps some clarifying language would resolve the issue such that consideration of the release of margin under the PAA approach should take into account the length of the premium and claims paying periods.

Again, we appreciate the Staff's and Board's consideration of this issue and would be glad to discuss the issue in more detail with the Staff at your convenience. As noted above, we believe that a straight-forward modification or clarification of the PAA mechanics could solve this problem and better align the

PAA with the revenue recognition standard by recognizing the margin over the period in which the insurer is released from both incidence and severity risk.

Sincerely,

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