In March, AARP announced a new national campaign called “You’ve Earned A Say.” The campaign includes surveys and questionnaires, TV commercials on network, cable news and lifestyle channels, and community meetings in all 50 states. AARP’s 40 million members are supposed to engage in a “national conversation” to voice their opinions on Medicare and Social Security.

“Our members and older Americans have paid into Medicare and Social Security throughout their working lives, and they have earned a say in the future of these programs,” said AARP CEO A. Barry Rand in a news release announcing the national campaign.

Of course, the campaign actually should be named “AARP Demands Its Say.” Formerly called the American Association of Retired Persons, AARP is the behemoth of special interest advocacy groups with a well-earned reputation for throwing its weight around in Washington, D.C. From 1998 to 2010 it spent $198 million on lobbying, according to a report by the House Ways and Means Committee. That puts it behind the U.S. Chamber of Commerce, the American Medical Association, and General Electric, but ahead of PhRMA, the association of pharmaceutical manufacturers.

AARP describes itself as a “nonprofit, nonpartisan organization with a membership that helps people 50-plus have independence, choice and control in ways that are beneficial and affordable to them and society as a whole.”

What the AARP doesn’t say is that it’s a money-making powerhouse, with $1.565 billion in assets and revenue of $1.176 billion in 2010, according to its IRS Form 990 tax report. The bulk of its money comes not from membership dues, but from its business agreements with insurance companies and endorsements.

Summary: Last year Republican members of the House Ways & Means Committee issued an investigative report, “Behind the Veil: The AARP America Doesn’t Know” that calls attention to the lucrative business dealings of the group that purports to represent 40 million Americans over age 50 on such issues as Social Security and Medicare. Members of Congress want to know whether AARP is an advocate for seniors or whether it’s in it for the money. AARP’s recent activities make it even more important to find the answer to this question.

AARP Advocacy Group or Crony Capitalists?

Does the seniors group support Obamacare because it will force Medicare Advantage beneficiaries into AARP Medigap policies?

By Fred Lucas
AARP makes much of its revenue from the sale of supplemental Medicare insurance provided by UnitedHealthcare, which, as the insurance company explains in its promotional materials, “pays a royalty fee to AARP for use of the AARP intellectual property.” This may likely have been key to AARP’s support for the Patient Protection and Affordable Care Act, as will be discussed later. AARP income from contracts with UnitedHealthcare increased from $284 million in 2007 to $427 million in 2009, and leaped to $670 million in 2010. (Jim Angle; “Republican Lawmakers Question AARP’s Tax-Free Profits from Product Endorsements;” Fox News; Dec. 27, 2011.)

The billions produced by its money-making operations as well as the high salaries that AARP pays its executives are so noteworthy that members of Congress have asked the IRS to review AARP’s 501c4 tax-exempt status.

No Friend of Entitlement Reform

If AARP’s nonprofit status can be called into question, so can its claim to be nonpartisan. The “You’ve Earned A Say” campaign was AARP’s response to House Budget Committee chairman Paul Ryan’s proposal to overhaul the federal budget and save Medicare for another generation. When the Republican majority in the House of Representatives was getting ready to pass the Ryan proposal, AARP swung into action.

“Instead of talking about Medicare and Social Security as line items in the federal budget, Washington should be talking about how to strengthen health and retirement security and ensuring Americans have a voice in the debate,” said AARP’s Barry Rand.

In a letter, Rand said the Wisconsin Republican’s budget plan “lacks balance” and “jeopardizes the health and economic security of older Americans.” He warned that it would “likely ‘price out’ traditional Medicare as a viable option.”

AARP’s website even taunted House Republicans by recalling an earlier Republican initiative that failed when Newt Gingrich and Bob Dole led congressional Republicans:

Back in 1995, Democrats were fighting something called the Medicare Preservation Act, a ‘reform’ plan led by Newt Gingrich, who was then the Speaker of the House, and Bob Dole, who would soon become the 1996 GOP presidential nominee. Rep. Sam Gibbons, a Democrat from Florida who’d been the acting chairman of House Ways and Means Committee, came up with the idea of saying that the [Republican] legislation would put ‘an end to Medicare as we know it.’ The Medicare Preservation Act fizzled.

AARP’s resistance to reforming entitlement spending disappoints those who hoped the seniors group would recognize the danger entitlements pose to the nation’s fiscal solvency. Less than a year ago, in late June 2011, AARP formally announced that it would not oppose necessary government changes to keep Social Security solvent. As Investor’s Business Daily put it, AARP “will no longer irrationally stand in the way of the government reducing Social Security benefits.”

But after the media reported on this development, AARP backed away and denied that it had changed its position on Social Security. Remarkably, however, AARP’s Barry Rand went on to concede that the solvency of Social Security was a legitimate issue.

“It has long been AARP’s policy that Social Security should be strengthened to provide adequate benefits and that it is sufficiently financed to ensure solvency with a stable trust fund for the next 75 years,” Rand said. “It has also been a long held position that any changes would be phased in slowly, over time, and would not affect any current or near term beneficiaries.”

The moderate Democratic group Third Way, which pushes for more fiscal responsibility, took notice, calling Rand’s cautious acknowledgement “a watershed moment” for taming the entitlement beast. Third Way president Jonathan Cowan said AARP “opened the door to reform, it is time for lawmakers to walk through it.”

That was then. The spark of hope was extinguished this year.

Hold On To Your Wallets

AARP’s support for entitlement reform collapses whenever it is asked to consider serious reform legislation. In April 2011 it sneered at Rep. Ryan’s first proposal to tackle the problem of soaring federal deficits by reforming Medicare and Medicaid. “For somebody in their early fifties, I’d say hold on to your wallet — it’s going to mean higher costs and lower benefits,” said AARP’s John Rother about the Ryan plan. Rother, who is AARP’s executive vice president for policy,
made a prediction: “This proposal is not going anywhere anytime soon.”

But he added a warning: if Republicans win control of the Senate and the White House in 2012, “That’s a whole different story.” AARP underscored its fear of the Ryan proposal by adding an ominous photo of Paul Ryan to the online posting of Rother’s comments.

During the 2011 debate AARP made unfair arguments against the Ryan plan. Even though it knew the plan would not affect today’s seniors or anyone over the age of 55, an AARP-produced TV spot said, “Some in Congress want to make harmful cuts to Medicare and Social Security, cutting your benefits so Washington can pay its bills.”

Rand asserted in an April 14, 2011 letter to lawmakers, “Many elements of this budget proposal would harm individuals who currently receive Medicare or Medicaid coverage, including proposed budget caps enforced by across-the-board spending cuts. Although some changes in Medicare are directed at those 55 and under, in fact, the mandatory spending caps would very likely trigger cuts to Medicare benefits for today’s seniors.”

Even though the Ryan plan does not cut Medicare, it’s been pounded by AARP’s irrational condemnation of it for two years straight. By contrast, AARP gives whole-hearted support to Obamacare, which cuts $500 billion from Medicare.

During the debate in Congress over Obamacare AARP’s Barry Rand repeated the Administration line. In a December 2, 2009 statement, Rand wrote, “The AARP believes that savings can be found in Medicare through smart, targeted changes aimed at improving health care delivery, eliminating waste and inefficiency, and aggressively weeding out fraud and abuse. Such changes will help strengthen Medicare’s long-term financing.”

We all know what happened. Obamacare languished in Congress for more than a year before finally passing the Democrat-controlled House in March 2010 on a narrow 219-212 vote. AARP members and future members need to understand the significance of that vote. Without AARP’s endorsement of the administration’s promises and claims Obamacare probably would not have passed Congress.

**AARP’s Motive: Politics or Money?**

Why did AARP support a policy so contrary to the interests of its members? Is it just that Obamacare is a Democratic proposal while Paul Ryan is a Republican? No. Recall that AARP supported the Bush administration’s Medicare prescription drug plan. It’s possible that profit, not politics, is prompting its decision-making. For AARP Obamacare may well be an exercise in crony capitalism, an opportunity to enhance its revenues.

The key to making a profit from Obamacare is exploiting the difference between Medicare Advantage and Medigap.

Medicare Advantage – also known as Medicare Part C – and Medigap are similar in that both are private insurance components related to Medicare.

Medigap plans are private health insurance policies sold to fill gaps in “Original Medicare” coverage. According to the Centers for Medicare and Medicaid Services, “Medigap policies can help pay your share (coinsurance, copayments, or deductibles) of the costs of Medicare-covered services. Some Medigap policies also cover certain benefits Original Medicare doesn’t cover. Medigap policies don’t cover your share of the costs under other types of health coverage, including Medicare Advantage Plans, stand-alone Medicare Prescription Drug Plans, employer/union group health coverage, Medicaid, Department of Veterans Affairs (VA) benefits, or TRICARE. Insurance companies generally can’t sell you a Medigap policy if you have coverage through Medicaid or a Medicare Advantage Plan.” (“2012 Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare;” Center for Medicare and Medicaid Services; http://www.medicare.gov/Publications/Pubs/pdf/02110.pdf.)

By contrast Medicare Advantage offers plans run by Medicare-approved private insurance companies. According to CMS, “Medicare Advantage Plans are a way to get the benefits and services covered under Part A and Part B. Most Medicare Advantage Plans cover Medicare prescription drug coverage (Part D). Some Medicare Advantage Plans may include extra benefits for an extra cost.”

In explaining the difference, a CMS booklet explains, “If you join a Medicare Advantage Plan, you don’t need and can’t be sold a Medigap policy.”

Medicare Advantage, or Medicare Part C, was cut by $500 billion in Obamacare. This was advantageous to Medigap plans and AARP. Here’s why:

The UnitedHealthcare insurance company offers Medicare Advantage policies (which are the private alternative to traditional Medicare) under the AARP brand name. UnitedHealthcare pays AARP a specified royalty fee for using its brand name/intellectual property. Beneficiaries pay their premiums directly to the insurance company. Neither AARP nor UnitedHealthcare discloses their contractual arrangements, but we do know that AARP added $657 million to its coffers in 2009 from all its royalty payments and $427 million came from UnitedHealthcare, according to the House report.

By contrast, UnitedHealthcare also contracts with AARP to provide Medigap supplementary policies (which pay for what traditional Medicare doesn’t). In this case, however, beneficiaries pay their Medigap premiums directly to AARP’s Insurance Plan, which
FoundationWatch

retains 4.95 percent of seniors’ premiums, according to information discovered by House investigators. (Jim Angle; Fox News; Dec. 27, 2011.)

House Republicans predict that when Obamacare slashes $500 billion from Medicare Part C—including $206 billion from the Medicare Advantage program, according to the Congressional Budget Office—it’s likely that the premiums Medicare Advantage charges beneficiaries will increase. As a result up to 50 percent of Medicare recipients are expected to drop their Medicare Advantage plans and most will switch to a supplemental Medigap program. Among the choices available for Medigap policies the largest and best-known one is currently offered by AARP/UnitedHealthcare.

The upshot for AARP? Despite the Obamacare cuts UnitedHealthcare will continue to pay AARP a royalty payment for its brand name—even if the number of its Medicare Advantage policyholders declines as premiums rise. But AARP’s income from the sale of its Medigap program should soar. It’s a win-win for AARP.

In a letter to the IRS, Republicans on the House Ways & Means Committee questioned AARP’s sponsorship of UnitedHealthcare insurance. They took particular notice of an unusual and troubling feature in the nonprofit’s contractual arrangement with the for-profit firm: AARP had “authority over United’s ‘operating plan’” and it has the authority to “approve, modify on a line-by-line basis, or provide specific direction to United.” (Jim Angle; Fox News; Dec. 27, 2011.)

It is estimated that Obamacare’s Medicare cuts could cause seven million seniors to quit or lose their Medicare Advantage plans and thus swell the Medigap rolls to the financial advantage of AARP. AARP could make between $55 million and $166 million by 2014 if the Obamacare law survives, according to the committee report. The financial gain to AARP could be as much as $1 billion over the next 10 years. (The committee report, “Behind the Veil: The AARP America Doesn’t Know;” March 30, 2011, is available at http://waysandmeans.house.gov/UploadedFiles/AARP_REPORT_FINAL_PDF_3_29_11.pdf.)

AARP: Seniors Advocacy or Lucrative Dealmaking?

Last year the House Ways and Means Committee began investigating AARP’s tax-exempt status. The investigation is led by Republican representatives Wally Herger of California, Dave Reichert of Washington state, and Charles Boustany of Louisiana.

Members of the Ways & Means Committee looked at AARP’s executive compensation. Under the Internal Revenue Code, tax-exempt organizations are prohibited from providing “unreasonable” compensation to executives or board members. But whether reasonable or not, AARP executives are very well paid, according to the House committee report. In 2009, then-CEO William Novelli was paid $1.64 million annually. He received a $350,657 severance package when he left AARP’s employ.

House investigators also inquired into the extent of AARP’s insurance and business-related activities. Because they are financially far larger than AARP’s educational and charitable activities, committee members have forwarded their report to the IRS and are asking the agency to explore whether AARP is being properly taxed. For instance, current IRS rules exempt from taxation royalty payments such as those UnitedHealthcare makes to AARP. Members of Congress question whether this is appropriate.

AARP has come under tax scrutiny in the past. In 1994, it paid a one-time settlement of $135 million to the IRS to resolve an audit over its tax returns from 1985 through 1993. The IRS concluded that AARP had engaged in commercial activities and was therefore obliged to pay what’s called the “unrelated business income tax” or UBIT. That same year, AARP also paid $2.8 million to the U.S. Postal Service to settle allegations that in 1991-1992 it improperly mailed health insurance solicitations at nonprofit rates.

In 1999 the IRS and AARP reached another settlement over treatment of its endorsement activities. In that case AARP agreed to set up a separate for-profit company to handle its deals.

Why should AARP be tax-exempt while it earns hundreds of millions of dollars in royalties by sponsoring health insurance, offering hotel and travel discounts and deals on auto rentals? That’s the question Wyoming Senator Alan Simpson asked at a hearing he held in 1995 on AARP’s operations.

Simpson offered an amusing and caustic analogy when he suggested that AARP might be compared to U.S. Steel “if U.S. Steel decided to rename itself the American Association of Steel Enthusiasts, offered some discounts and rebates to millions of Americans in exchange for a strictly nominal contribution, and then used that incidental association to gain tax-exempt status, and devoted millions to lobbying for direct support of the steel industry.” (See the 1996 CRC monograph, “Frightening America’s Elderly: How the Age Lobby Holds Seniors Captive.”)

Worth noting: in what at least appears a conflict of interest between nonprofit AARP and its for-profit insurance plan. Seven of AARP’s 22 board members comprise the entire board of the AARP insurance plan.

Easy Money

The AARP has four sources of income, according to the House Ways & Means report, “Behind the Veil: The AARP America Doesn’t Know,” which was issued on March 30, 2011. The top income source—making up 46 percent of its revenues—is royalties

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from insurance companies and other private firms seeking AARP’s endorsement. Of $657 million in royalty revenue in 2009, mainly from insurance companies, 65 percent came from UnitedHealth Group, making it AARP’s largest business partner.

AARP’s received much less revenue from the dues its 40 million members pay—$200 million, an increase of $60 million from 2002 to 2009. AARP member dues comprise only 17 percent of the group’s total revenue. It’s noteworthy that from 2002 to 2009, dues revenue from AARP members increased by 32 percent. By comparison, revenue from AARP’s insurance company royalty partnerships tripled during the same period.

Advertising revenue and government grants provided the rest of AARP’s revenue. Advertising income and government grants each provided about $100 million in revenue, according to the House report.

AARP has a separate AARP Foundation, which provides direct assistance to seniors by working with government agencies and charitable organizations to provide food, housing and income assistance. The foundation also has a legal advocacy arm for seniors. Government grants of $97 million in taxpayer money provide 82 percent of the foundation’s funding.

To promote a “Drive to End Hunger” among seniors, the AARP Foundation in 2010 committed to sponsor the races of NASCAR driver Jeff Gordon for three years. No one is talking, but NASCAR says it costs about $14 million per season to sponsor a NASCAR driver.

After the House report was submitted to the IRS last year, AARP Board President Lee Hammond was quick to defend his organization.

“AARP is most disturbed by the accusation that our support of any legislation would be done with revenue in mind. AARP has long-maintained that we would gladly forgo revenue in exchange for lifetime health and financial security for all older Americans,” Hammond said. “We have been conducting ourselves in pursuit of that mission for more than 50 years with the same focus on affecting both public policy officials and the private marketplace to achieve our social welfare goals.”

Who Benefits Most from AARP?

The hearing aid company HearUSA offers yet another illustration of the financial benefits AARP enjoys from the contractual arrangements it makes with for-profit companies. HearUSA struck an exclusive deal with AARP, paying a $55 royalty for every hearing aid it sold at a 20 percent discount to AARP members. HearUSA must have believed its AARP endorsement offered it credibility and would boost sales.

The endorsement attracted notice, but not all of it was positive. “The obvious conflict is that AARP recommends products in which it has a financial interest,” a Palm Beach Post editorial said. “A spokesman said AARP licenses only products and services that are consistent with its ‘advocacy criteria.’ In the case of HearUSA, the spokesman said, AARP didn’t do the deal until HearUSA had met certain conditions, like a three-year warranty.”

AARP defended the integrity of its endorsement policy, but the editorial observed that it “sounds like that of a congressman who gets big money from a special-interest group but claims that the money flows to him because of his philosophy, not to secure his votes.”

“We get that AARP’s critics tend to be Republicans because AARP—despite its support for the GOP-sponsored drug plan—tends to take Democratic positions,” the editorial said. “We get that competing senior-advocacy groups that criticize AARP run on the same money that goes to the GOP. But mixing for-profit and not-for-profit money can cause ethical issues, and backing products that produce revenue can cause credibility issues. Some of AARP’s actions must make members wonder whether the organization is advocating more for itself or for them.”

We’ll never know how HearUSA benefited from its AARP deal because it filed for Chapter 11 bankruptcy in May 2011.

HearUSA, United Healthcare, and other companies are windows into the financial operations of AARP. They show how the group leverages for-profit businesses to rake in revenue.

“AARP is not financially dependent upon its members, but rather on selling its good name to endorse a great variety of products for royalties,” Rep. Wally Herger observes. “In 2009, AARP revenues from royalties were two and a half times higher than its membership dues. The news that consumers in the senior community may suffer at the hands of a failed agreement carrying AARP’s name, a name that seniors view as a ‘Good Housekeeping Seal of Approval,’ certainly makes one question whose interests AARP is serving—its members or its bottom line?”

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Many thanks.

Terrence Scanlon
President
Good news: federal funding of the National Endowment for the Arts is going to take a major hit this year, the New York Times reports. Funding for PBS programs will drop $1 million. Meanwhile, applications to NEA’s $4 million Arts in Media program shot up more than 100 percent this year after theatrical, Internet-based, mobile, and gaming projects were allowed to seek funding.

An odd new company named Repledge wants to cater to people who oppose money in politics but still want to support their favorite candidates. “The idea is to provide a way for donors disgusted with money in politics to keep their cash out of the system, while ensuring that they aren’t hurting their favored candidates in the process,” reports the Washington Post. Donors in both parties are urged to pledge fixed sums which Repledge will divide equally and give to named charities the donors select. Whatever is left over goes to political candidates. For example, if Barack Obama supporters pledge $110,000 and Mitt Romney backers pledge $100,000, then Repledge contributes $10,000 to the Obama campaign. “It’s Match.com [a dating website] for political opposites who would still like to support their candidate but are disappointed with the tremendous amount of funds going into campaign finances,” said Eric M. Zolt, a UCLA law professor who co-founded the company. Approval from the Federal Election Commission is pending.

A new study that screened would-be employees and volunteers at nonprofit organizations found that only five percent had criminal records, reports the Chronicle of Philanthropy. This was a decline from seven percent in 2010. Clearly the researchers didn’t study ACORN where a criminal record seemed to guarantee career advancement. LexisNexis Risk Solutions, which performs background checks, conducted the study.

Goldman Sachs CEO Lloyd Blankfein received total compensation of $16.1 million in 2011, up 14 percent from 2010, according to a regulatory filing. The bank paid Blankfein $2 million in salary coupled with a $3 million bonus and $10.7 million in stock awards.

The bank isn’t doing as well as Blankfein. Its earnings in 2011 fell 47 percent from the prior year as Wall Street turbulence rocked the nation’s financial markets. In the third quarter of 2011 Goldman Sachs actually lost money for just the second time since it went public in 1999.

Goldman Sachs has agreed to shell out $22 million to settle regulatory charges brought against it. It was accused of sharing confidential research data with preferred customers. Goldman executive Greg Smith quit the firm in a widely-read op-ed published by the New York Times. Smith said the bank lost its “moral fiber” and didn’t care about its clients’ interests. He said some Goldman Sachs executives scoffed at customers, calling them “muppets.”