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COMMITTEE ON WAYS AND MEANS

1102 LONGWORTH HOUSE OFFICE BUILDING
(202) 225-3625

Washington, DC 20515-6348

<http://waysandmeans.house.gov>

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JANICE MAYS,
MINORITY CHIEF COUNSEL

April 8, 2011

Douglas H. Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Shulman:

We are writing concerning the report we recently released, "Behind the Veil: The AARP America Doesn't Know." This report began as an effort to conduct oversight of the tax-exempt sector and better understand AARP's organization and structure. Despite AARP's continued refusal to respond to reasonable requests for information, including any details about the AARP Insurance Plan that processed \$6.8 billion in insurance premiums in 2009, we proceeded with the inquiry using publicly available documents. This information gave rise to a number of serious concerns regarding AARP's organizational structure and activities, and it raised questions about whether AARP, Inc. continues to qualify as a tax-exempt organization under Internal Revenue Code ("IRC") section 501(c)(4). Therefore, we ask that the Internal Revenue Service ("IRS") review the report and the issues raised therein.

From its founding in 1958, AARP, Inc. has grown into an elaborate network of entities with \$2.2 billion in assets and \$1.4 billion in revenues in 2009. Our report raises numerous questions related to how the various entities are controlled and whether the activities of the for-profit entities should be attributed to AARP, Inc., the IRC section 501(c)(4) tax-exempt parent. For example, in 2010, the entire Board of Directors for the "for-profit" AARP Insurance Plan also served on the Board of Directors of AARP, Inc., the parent 501(c)(4) that establishes AARP's advocacy positions. Further, there is substantial overlap of the Board of Directors between for-profit and tax-exempt entities within the AARP empire. Because of this overlap, it is not clear which entity is responsible for final business decisions and who controls the transfers of money between the various entities.

In addition to questions about AARP, Inc. and its affiliates' structure and governance, the attached report raises concerns regarding various issues including the organization's substantial revenues, limited charity work, and generous executive compensation. For instance, AARP, Inc. has experienced tremendous revenue growth in recent years from its contracts with business partners. Its revenue from for-profit businesses, derived primarily from insurance companies selling products with the "AARP" name, nearly tripled between 2002 and 2009, reaching \$657

million. The AARP Foundation has enjoyed increased taxpayer funding, including at least \$18 million in “stimulus” funding and a total of \$314 million in federal grants from taxpayers between 2008 and 2010. At the same time, AARP, Inc.’s charitable contributions have flat-lined or in some cases decreased to the point where, in 2008, federal taxpayers funded the AARP Foundation at nearly three times the level of AARP, Inc.’s cash and in-kind contributions to its own Foundation.

The report also questions whether AARP, Inc. excessively compensates its officers and provides travel benefits exceeding what is appropriate for an IRC 501(c)(4) organization. For instance, compensation for AARP, Inc.’s chief executive officer often far exceeds pay levels for chief executives at similarly-sized non-profits and charities, reaching as high as \$1.6 million in 2009.

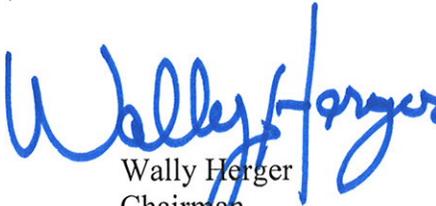
In addition, at a recent Ways and Means joint Health and Oversight Subcommittee hearing, a tax-exempt expert questioned whether certain revenue categorized by AARP, Inc. as royalty payments exempt from Unrelated Business Income Tax (“UBIT”) are, in fact, flat commissions. For example, in 2009, AARP, Inc. received 4.95 percent of every AARP Medigap plan sold and required individuals to first become members of AARP, Inc. to enroll in this plan. As you are aware, commissions are not exempt from UBIT, and would therefore be subject to taxation.

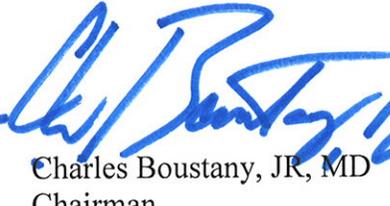
The facts laid out in our report strongly suggest that AARP, Inc. and its affiliates may no longer qualify as a tax-exempt organization. However, due to AARP, Inc.’s refusal to cooperate with numerous requests for information, substantial questions remain that warrant further inquiry by the IRS which has access to the information AARP, Inc. concealed from Congress. Accordingly, we are forwarding a copy of our report and request that the IRS review its findings and assess whether the IRS should conduct a further, more thorough examination, which would include a review of the many documents AARP, Inc. withheld from our investigation. We recommend the IRS review documents and any information relating to the following issues:

1. Whether the operational activities of AARP, Inc. and its affiliates are primarily motivated by political or profit interests, instead of by service to the community;
2. The appropriateness of board members who serve on AARP, Inc.’s for-profit and non-profit entities;
3. The reasonableness of AARP, Inc.’s executive compensation;
4. The separateness of federal grant cash and lobbying activities between AARP’s IRC 501(c)(3) charitable organizations and its IRC 501(c)(4) advocacy organization;
5. Whether it is appropriate to continue characterizing AARP Inc.’s revenue generated from insurance products as royalty income that is exempt from UBIT;
6. The accuracy and consistency of UBIT reporting on Forms 990, Forms 990-T, and audited AARP, Inc. annual financial statements;

7. Due to evidence suggesting AARP, Inc. asserts control over its affiliates, whether the activities of its affiliates should be attributed to the tax-exempt parent, AARP, Inc.;
8. Any other issue concerning the tax-exempt status of AARP, Inc.

Thank you in advance for the IRS's careful consideration of this report and the troubling questions it raises. We look forward to hearing from the IRS on this matter.


Wally Herger
Chairman
Subcommittee on Health


Charles Boustany, JR, MD
Chairman
Subcommittee on Oversight


Dave Reichert
Member of Congress

Enclosures