COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

April 21, 2011

A. Barry Rand
Chief Executive Officer
AARP, Inc.
601 E Street, NW
Washington, DC 20049

Dear Mr. Rand,

Thank you for testifying at the April 1, 2011 joint hearing of the Committee on Ways and Means Subcommittees on Health and Oversight. Based upon comments you or Lee Hammond, President of AARP, Inc., made at the hearing, there are a number of documents and answers that AARP agreed to provide the Subcommittees. Likewise, there are unresolved matters or areas that require further clarification. To that end, this letter is intended to follow up on those matters.

In order to clearly delineate the source of the inquiries, questions have been divided into the following categories:

1. Information you or Lee Hammond agreed to provide the Subcommittees during the hearing;

2. Questions and clarifications related to possibly inaccurate or incomplete statements made during the hearing, including inaccuracies brought to Committee staff's attention by AARP's outside counsel; and

3. Outstanding questions you either failed to answer at the hearing or previously refused to address, but that we hope you will now provide given your organization's recently stated commitment to transparency.

Furthermore, while you were the official witness on behalf of AARP, Inc. and its affiliates, per your outside counsel's request, the Subcommittees allowed Mr. Hammond to accompany you at the witness table for the purpose of assisting you in answering questions to which you might not have the answer readily available. Accordingly, some of the questions below are based on statements made during the hearing by Mr. Hammond. Given the time you have had to review these matters, we expect complete answers to all questions.

Information Mr. Rand or Mr. Hammond agreed to provide the Subcommittees.

1. Royalty amounts that AARP receives, on an annual basis, for the Medicare Advantage (MA) and Medicare Part D prescription drug plans under AARP's current contract with United, which runs through 2014. Please list the royalty amount separately for each insurance product type.

2. The amount of money AARP earned on the interest from holding insurance premiums for AARP-branded insurance products and the amount of taxes paid, if any, on the interest earned, in each of the last ten years. Also provide the length of time the premium money is held by AARP, in accordance with the contracts, for each AARP-branded insurance product.

3. Clarification of whether AARP, Inc. or any of its affiliated entities employ or contract with actuaries. If there are actuaries employed by or under contract, please detail how many, in what organization they are employed, and their primary job responsibilities.

4. Information on every meeting with individuals representing the White House and the Obama Administration that included an AARP representative, whether employed by AARP or contracting with AARP, the dates of those meetings, and the names of White House and Administration representatives at such meetings from 2009 through 2011 where health care was discussed.

5. A detailed description and funding amount of the member services provided to AARP members today that were not provided in 2002.

Questions and clarifications related to certain statements (including omissions) made during the hearing, including inaccuracies brought to Committee staff's attention by AARP, Inc.'s outside counsel.

6. When asked, "What percentage of AARP's Medigap premiums will AARP keep in each year from 2011 until the current contract expires in 2017?" you responded that, "I can't answer the future. We have not talked about that."

   Given that AARP's Medigap contract with UnitedHealth Group runs through 2017, the royalty payment (defined as percentage of Medigap premiums retained by AARP) that AARP receives in future years covered under the contract should be readily available. Please provide us with information detailing the percentage of the Medigap premium that AARP will receive in 2011 through 2017.

7. When you were asked if AARP makes money off of its NASCAR sponsorship you replied, "We don't make any money on this."

   However, according to NASCAR's announcement of the AARP deal: "Sales will be managed by Kyle Lewis, AARP vice president of business development, and Andrew Campagnone, senior vice president of motorsports for Wunderman, who helped put together the deal...[AARP] expects to have no problem recouping its investment in the car or collecting donations for its effort to end hunger. It plans to set a benchmark early next year for how much of every dollar it raises is directed to fighting hunger."

   Given this statement, please clarify whether or not AARP, Inc. or any of its affiliates, will receive revenue from selling advertisement space on the car. If so, how much has AARP received thus far? How much will AARP receive over the next three years of the sponsorship deal, in accordance with advertising contracts with other entities that have already been signed? Additionally, how much of every dollar of advertising revenue will be directed to this hunger initiative that are not related to overhead costs?

8. You claimed that AARP does not collect Medigap insurance premiums from seniors and that AARP does not receive royalty payments for the sale of AARP-branded Medigap insurance plans. Your claim is inconsistent with AARP's most recent Notes to Consolidated Financial Statements which state that the AARP Insurance plan, "a grantor trust, holds group policies, and maintains depository accounts to initially **collect insurance premiums** received from participating members. In accordance with the agreement referenced above [contracts with UnitedHealth Group, Metropolitan Life Insurance Company, Genworth Life Insurance Company, and Aetna Life Insurance Company], **collections are remitted to third party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc.,** which are reported as royalties in the consolidated statement of activities." (*emphasis added*)

   Additionally, please see the enclosure showing AARP and UnitedHealth Group's Medigap insurance filing with the Rhode Island Department of Business Regulation's Division of Insurance Regulation in 2010. This filing shows that 4.95 percent of the Medigap premiums are classified in the filing as "royalties." These royalties are presumably being paid to AARP.

   Given these facts, we would like to provide you with the opportunity to correct what appears to be a clear misstatement. Which entity collects premiums directly from Medicare beneficiaries for AARP-branded Medigap insurance policies? Further, what percentage of this premium does AARP retain before sending the remainder to UnitedHealth Group in 2011? What percentage of premium payments will AARP retain in each of the remaining years on AARP's current Medigap contract with United?

9. With regard to the interest AARP earns by keeping Medicare beneficiaries' insurance premiums, you stated that the premium revenue is held in a "simple interest-bearing account." AARP's outside counsel clarified after the hearing that the Medicare beneficiaries' premium money is also invested by AARP in other ways, including securities.

   Please provide a detailed account of what your outside counsel meant by "other investments" when he wrote "the Trust assets are held not only in an interest bearing account, but they are also invested in securities and other investments." Also, provide the total premium dollar amount that the AARP Insurance Plan and AARP, Inc. have invested since 2002; what percentage of that annual total was invested in securities and what remained in an interest bearing account; and specify the industry sectors in which these "other investments" are made.

10. When asked if AARP Services has any role whatsoever in setting insurance premiums or rates, you stated, "The answer is no."

    However, AARP's outside counsel informed staff after the hearing that, in fact, AARP Services, Inc. (ASI) does "review" premium rates and may negotiate with the insurance carriers so that such rates are deemed "reasonable" by AARP standards. Once ASI and AARP's insurance partners come to an agreement, AARP's Insurance Plan must approve the premium rate. If approved, the rate is forwarded to the state insurance commissioners.

    We would like to give you the opportunity to answer the question again. What role does AARP Services have in setting the premiums for AARP-branded insurance products? Is AARP's Insurance Plan's Board of Directors responsible for approving insurance premiums for AARP-branded insurance products? If so, which products?

11. When questioned about which AARP entity oversees its insurance contracts, Mr. Hammond responded that "they are not overseen by the [AARP, Inc.] board, they are overseen by [AARP Services, Inc.], which is our for-profit. They manage and oversee the contracts." It is important to note that in 2010, two of AARP, Inc.'s Directors also served on the board of AARP Services.

    Based upon the information received from AARP's outside counsel described above, including the fact that the AARP Insurance Plan Board must approve the contract and premiums and that this group was entirely comprised of AARP, Inc. directors in 2010, on what is the basis for your assertion that the AARP, Inc. board does not oversee the contract with UnitedHealth Group?

12. Mr. Hammond claimed there are "basically three different boards involved in the AARP organization." Mr. Hammond mentioned the boards of AARP, Inc., AARP Services, Inc., and the AARP Foundation. However, Mr. Hammond failed to recall the AARP Insurance Plan board, which processed $6.8 billion in insurance premiums in 2009 and claimed seven AARP, Inc. Directors as its entire board in 2010. When asked if the three boards identified by Mr. Hammond are located in the same office, Mr. Hammond responded, "They have three different offices. They meet at three different spots."

    However, AARP, Inc. and the AARP Foundation both list 601 E Street, NW, Washington, DC 20049 as its address. Do you stand by Mr. Hammond's claim that AARP, Inc. and the AARP Foundation have different offices?

Outstanding questions that AARP, Inc. either failed to fully answer at the hearing or has previously refused to answer.

13. You were asked twice, by two different members, whether AARP would commit to forgoing any Exchange insurance product-related revenue, whether by royalty commission, or otherwise, beginning in 2014. You failed to answer the question both times it was asked. We would like you to answer this very simple question:

    Will AARP commit to not endorsing or selling insurance in the government-run Exchanges? Will AARP decline any royalty, commission payments, licensing fees, or revenue from any insurance company that is related to an insurance product offered in the Exchange?

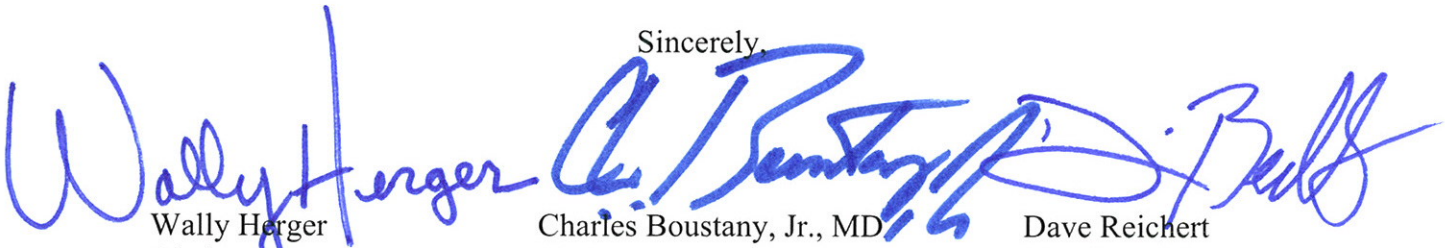
14. When asked why the AARP, Inc.'s cash and in-kind contributions have not kept pace with AARP's royalty revenues growth and how this comports with AARP's tax-exempt status, you simply responded that "All of our money does go to our mission."

    Please provide a detailed and specific accounting – by program and dollar amount - of how AARP's $1.4 billion in total operating revenue was spent in 2009 to further AARP's mission. As part of that, please indicate how AARP spent the more than $600 million of royalty revenues it collected in 2009, derived primarily from insurance companies, that were not provided to the AARP Foundation or AARP's Legal Counsel for the Elderly. In addition to specific programmatic spending, please provide an explanation of how the activity is related to AARP's mission. Please subtract any taxpayer-funded grant money from your calculations of how AARP spent its revenue in 2009.

15. When asked how many millions of dollars AARP receives from its Medigap insurance business, you responded that, "We will provide any of your asks that we can—that we have sole control over." As you have complete information about how much money AARP receives from its insurance business, please indicate how much money AARP has been or will be paid by UnitedHealth Group, in each year of its current contract, in direct royalty payments from the sale of AARP-branded Medigap insurance policies.

Again, thank you for participating in the Subcommittees' hearing. We look forward to reviewing your responses. Please provide this information to our offices no later than May 5, 2010. Thank you in advance for your cooperation and commitment to transparency.

Sincerely,



Wally Herger Chairman Subcommittee on Health	Charles Boustany, Jr., MD Chairman Subcommittee on Oversight	Dave Reichert Member of Congress

Enclosure

Rhode Island
2010 Expenses by Category

Standardized Plans

Member Contribution	$10,557,791
Average Lives	5,418

Expenses	% of Member Contribution	PMPM
Royalty	4.95%	$8.04
Premium Taxes	2.00%	$3.25
Risk and Profit	1.85%	$3.00
Operating Expenses	4.49%	$7.29
Sales Expenses	4.17%	$6.77
Commissions	0.71%	$1.15
Investment Income Credit	-0.58%	($0.94)
Total Expenses	17.59%	$28.56