Written by Bob Adelmann on December 27, 2011

Congress Asks IRS to Investigate AARP

Rep. David Reichert (R-Wash., left) along with two other House members has asked the Internal Revenue Service to investigate the American Association of Retired Persons (AARP) for acting more like a profit-making insurance company rather than a tax-exempt advocate for senior citizens. The AARP's close control and micro-marketing management of companies it allows to use its brand amounts to profit-making activity that should be taxable, assert the lawmakers and others. But for years the AARP has largely successfully defended its non-profit status all the while growing into the seventh largest insurance company in the country.

Reichert, a member of the House Ways and Means Committee, told *Fox News*: "They're really trying to manage these companies to increase their revenues." And they have succeeded greatly. During the recession, when many of its members were struggling financially, AARP's revenues just from its affiliation with United HealthCare alone jumped from $284 million in 2007 to $427 million in 2009 and $670 million in 2010. But because of their tax-exempt status, little of this is subject to income tax.

A tax lawyer favorable to the AARP, Bill Josephson, played innocent before looking into the situation, claiming that the organization was just receiving royalties or passive income, a common tax loophole for non-profits to use to shelter income from the IRS. He said, "[This] is the classic royalty situation where the Sierra Club [for example] in effect simply makes its mailing lists available to other charities in return for royalty [payments]. I don't have a problem with that, nor does anybody else."

But Reichert, in his letter to the IRS, notes a big difference between the Sierra Club and the AARP. The AARP has virtual "authority over United's 'operating plan' " and is allowed to "approve, modify on a line-by-line basis, or provide specific direction to United." If that is the case, Josephson said, then "the kinds of hands-on relationships [the AARP] has with its supposedly arms-length insurance companies are hardly passive" and if the income isn't passive, it's taxable.

Kevin Donnellan, AARP's chief communications officer, took umbrage at any suggestion of wrong-doing. In a letter to *Fox News* he said "We have spent more than five decades proving our commitment to helping older Americans obtain quality, affordable health [insurance], so, of course, we take seriously how others use our name. We're disappointed that this work should be the subject of congressional criticism."

What Donnellan failed to mention was AARP's lobbying efforts to influence legislation that would force its members to buy more of its insurance products, nor did he mention any of the other numerous times over those five decades when the AARP had tussled with the IRS, and lost.

It's role as a noisy cheerleader favoring ObamaCare has been well-documented, as well as its reward from the Obama administration of a waiver from the wretched takeover it so strongly endorsed. What is less well documented is its efforts to become the primary, if not the only, carrier of Medigap policies that its members will have to buy when they discover that the cuts in Medicare mandated by ObamaCare will leave big holes in their insurance coverage. This was brought out in the congressional study "Behind the Veil" published in May where the chief actuary for the Centers for Medicare and Medicaid Services (CMS) Richard Foster was interviewed by Rep. Reichert:

> "But as Medicare Advantage plans go away, seniors are going to have to make a choice to go someplace…they are going to have to go somewhere, and [AARP's] Medigap would be one of those?"
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> Foster: "Well, I think that if our projection ends up being correct…something like 6 to 7 million people…will want auxiliary coverage, and Medigap will be the most straightforward way [for them] to get it."

Rep. Pat Tiberi (R-Ohio) then asked Foster:

> "If you were in the business of providing coverage for seniors and you are providing that coverage as an addition to Medicare, the more Medicare beneficiaries there are, the better it is potentially for you to supplement your business by offering move coverage…Meaning that if there are fewer Medicare Advantage beneficiaries [due to ObamaCare-mandated cutbacks], they have to go back [and purchase additional coverage] so you would be potentially benefited?"
>
> Foster: "Yes, you would have a broader market opportunity."

And so there it is: the self-serving nature of the AARP, wielding its political clout to force passage of ObamaCare that most of its members didn't want, in order to mandate a reduction in coverage to those members, thus forcing many of them to purchase additional coverage through the AARP-approved United Health Medigap plans.

But it's worse than that. Not only did the AARP ignore its members' pleas opposing ObamaCare, but the profits generated on the revenues AARP expects to generate (estimated to be $1 billion over the next 10 years) are exempt from taxation. A fine mixture of hypocrisy and conflict indeed.

Any investigation by the IRS into such self-serving behavior won't be the first time, and the AARP's record of buying off the IRS is annoyingly excellent. For example, in 1994 the AARP paid the IRS a piddling penalty of $135 million "in lieu of taxes" following an audit of its activities from 1985 through 1993. And the AARP paid the U.S. Postal Service a puny $2.8 million for using its tax-exempt status to mail out health insurance solicitations to its members. And again in 1999 the AARP made the IRS go away by paying a penalty to end an investigation into its activities from 1994 through 1998.

One has to give the AARP credit: they have figured out how to game the system: promoting government policies that increase its business, while exempting itself from those onerous policies, and shielding its profits behind the façade of its tax-exempt status.