AARP’s Stealth Fees Often Sting Seniors With Costlier Insurance

By Gary Cohn and Darrell Preston

Dec. 4 (Bloomberg) -- Arthur Laupus joined AARP because he thought the nonprofit senior-citizen-advocacy group would make his retirement years easier. He signed up for an auto insurance policy endorsed by AARP, believing the advertising that said he would save money.

He didn’t. When Laupus, 71, compared his car insurance rate with a dozen other companies, he found he was paying twice the average. Why? One reason, he learned, was because AARP was taking a cut out of his premium before sending the money to Hartford Financial Services Group, the provider of the coverage.

Laupus stumbled onto something that many members of the world’s largest seniors’ organization don’t know: The group, formerly called American Association of Retired Persons, collects hundreds of millions of dollars annually from insurers who pay for AARP’s endorsement of their policies.

The insurance companies build the cost of these so-called royalties and fees, which amounted to $497.6 million in 2007, into the premiums they charge AARP members, according to AARP’s consolidated financial statement for that year.

AARP uses the royalties and fees to fund about half the expenses that pay for activities such as publishing brochures about health care and consumer fraud -- as well as for paying down the $200 million bond debt that funded the association’s marble and brass-studded Washington headquarters.

In addition, AARP holds clients’ insurance premiums for as long as a month and invests the money, which added $40.4 million to its revenue in 2007.

‘Fattening the Coffers’

“At the end of the day, it’s all about fattening the coffers of the organization,” says Thomas Orecchio, who was chairman of the Arlington Heights, Illinois-based National Association of Personal Financial Advisors until September. AARP, he says, is sponsoring insurance for its members at inflated prices.

“It’s the dirty little secret,” he says.

During the past decade, royalties and fees have made up an increasing percentage of AARP’s income, rising to 43 percent of its $1.17 billion in revenue in 2007 from 11 percent in 1999, according to AARP data.

Laupus, a former teacher in Baltimore, and millions of others joined AARP in the belief it would provide
discounts, services and publications. The organization ranks behind only Consumer Reports and the American Red Cross as the most trusted large group that influences U.S. politics and business, a 2007 Harris Poll found.

AARP has helped millions with tax returns, estate planning and health care advice.

'Turbulent Economy’

With stock markets around the world plunging, savings plans in turmoil and medical costs soaring, older Americans need an organization such as AARP in their corner.

"The turbulent economy puts more people in the difficult situation of being under- or uninsured," says Iowa Republican Senator Charles Grassley. "That's why we need to make sure individuals aren't taken advantage of with misleading marketing, especially by a name brand advocate who carries a high level of trust."

Grassley sent letters to AARP Chief Executive Officer William Novelli and state insurance commissioners Nov. 3 inquiring into whether the AARP misrepresented what is covered by some health insurance policies it sold. Four days later, Novelli announced AARP would review its marketing and suspend sales of those policies.

AARP’s mission to help seniors has been compromised by its reliance on royalties and fees, says Marilyn Moon, who was director of AARP's Public Policy Institute from 1986 through 1989.

'Conflict of Interest’

"There's an inherent conflict of interest," she says. "A lot of people there are trying to do good, but they're ending up becoming very dependent on sources of income."

Moon is now vice president and director of the health program at American Institutes for Research in Washington.

Novelli, who co-founded a public relations company in 1972, became CEO of AARP in 2001. Since then, the organization has increasingly focused on marketing as a means to increase revenue, Moon says.

AARP officials say the organization always gives priority to the needs of seniors.

"There is no conflict of interest between the marketing of products and services to our members and our policy work," spokesman Adam Sohn says. "Policy always comes first."

AARP declined requests to make Novelli available for comment.

‘Benefit From Our Brand’

John Wider, executive vice president of AARP Services Inc., a for-profit subsidiary, says AARP uses royalty revenue to fund its member services. In addition, he says, insurers selling products through AARP find royalty payments are worthwhile because AARP's endorsement lowers insurance company marketing costs and increases sales.

"There is an efficiency they gain in being able to benefit from our brand," he says.

Novelli, 67, has broadened AARP's reach and increased its clout in Washington. The association recently joined with industry and labor groups in a campaign known as Divided We Fail. That effort is seeking ways to ensure health care for all Americans.

Novelli has expanded AARP’s marketing to include 17 types of insurance. The association collects royalties on each of those products. Its membership rose to 40 million from 35 million, and its total revenue grew to $1.17 billion in 2007 from $520 million when Novelli took charge.

Medicare Lobbying

Nowhere were AARP’s conflicting roles more evident than in its lobbying in support of a 2003 bill proposed by President George W. Bush to expand Medicare, the federal health insurance program for
people older than 65.

The bill, which for the first time added a prescription drug plan to Medicare, passed by a vote of 220-215 in the House of Representatives and 54-44 in the Senate. Thousands of AARP members complained that the legislation was a bad deal for seniors because it provided incomplete coverage and raised costs for seniors with low income.

After the Medicare bill was signed into law by Bush in December 2003, AARP was able to expand its contract with Minnetonka, Minnesota-based UnitedHealth Group Inc., which underwrites AARP’s Medicare supplemental insurance plan.

AARP increased its annual revenue from royalties by $197 million to $497.6 million from 2003 to 2007.

Not the Least Expensive

AARP advertises that its Medicare supplemental insurance can save people thousands of dollars. While every type of supplemental policy sold by all companies must offer the same exact coverage under federal rules, AARP doesn’t sell the least expensive.

The AARP/UnitedHealth basic policy costs $582 a year more than a lower-cost competitor in New York and $428 more in Los Angeles, according to data on Medicare’s Web page. AARP spokesman Sohn says everyone should shop carefully.

“One product and service AARP makes available is competitively priced,” he says. “Price is not the only factor. Service and features need to be factored in to determine full value.”

AARP’s muscle on Capitol Hill is vested in the size and geographic reach of its membership, as well as its lobbying budget. The association donated no money to candidates in 2007, federal election records show.

‘AARP’s Clout’

“They don’t even have to give any campaign contributions,” says James Thurber, director of the Center for Congressional and Presidential Studies at American University in Washington. “AARP’s enormous clout comes from the threat they could defeat people in Congress who don’t do what they want. They are the most powerful interest group in Washington.”

Rob Simmons, who served as a Republican congressman from Connecticut during 2001 through 2006, says he waited to learn AARP’s position on the 2003 Medicare legislation before deciding how to vote.

“Some people tore up their AARP cards in protest,” he says. “I told my constituents 10 days before the vote that I would wait to see what AARP had to say.”

Simmons praises AARP’s efforts to stand up for seniors. In 2005, Novelli fought President Bush’s plan to overhaul Social Security by creating private accounts. AARP launched what it called its largest political advertising campaign ever, using newspapers and television to attack the proposal.

As the president toured the country holding town meetings to win support, AARP sponsored its own forums nearby to criticize the plan. It argued that like an old-fashioned pension, Social Security should remain as a fixed payment to retirees -- and the money shouldn’t be gambled in investments.

AARP Won Battle

Responding to requests from the association, AARP members wrote or e-mailed Congress hundreds of thousands of times, AARP says. AARP won the battle, and Bush dropped the proposal.

“AARP in my opinion is one of the foremost defenders of the rights of senior citizens,” Simmons says. “It has the staff, expertise and national stature to be an organization to be respected.”

AARP has provided free tax preparation assistance to 47.7 million people with middle-range and low incomes. Other services include career counseling, driver safety training, financial education programs
and home heating assistance.

To help pay for its advocacy, training and lobbying, AARP gets royalties and fees for selling insurance. In 2007, the group spent $157.2 million, about 13 percent of its revenue, on advertising. It runs daily -- sometimes hourly -- spots on television and Internet ads saying its insurance policies can save members money.

‘Compare Us’

Its Web page on car insurance says, “Get on the road to better coverage and bigger savings. Compare us to your current policy and you could save hundreds in the first year alone!” A TV ad for AARP’s Medicare supplemental insurance says customers can save thousands of dollars.

At the bottom of its insurance Web page, AARP says, “Insurers and providers pay a fee to AARP and its affiliates for use of the AARP trademark and other services.”

AARP has been in the insurance business since its founding in 1958. Ethel Percy Andrus, a former school principal, discovered that a retired teacher couldn’t afford an apartment and was living in a chicken coop.

Andrus worked with Colonial Penn Group to provide health insurance to retired teachers starting in 1947. She expanded AARP’s offer to include health insurance for all retirees 11 years later.

Expanded Marketing

AARP stopped selling basic health insurance for seniors in 1965 after President Lyndon Johnson signed Medicare into law. The organization continued to offer several kinds of insurance, including a supplement to Medicare, offering additional coverage.

Novelli has been able to expand AARP’s marketing, having co-founded New York-based public relations firm Porter Novelli. He and his partners sold the company for an undisclosed amount to Omnicom Group in New York, the world’s largest owner of advertising agencies.

From 1991 to 1995, he was executive vice president of CARE, an international group that fights poverty. From 1995 to 1999, he ran the Campaign for Tobacco-free Kids, which works to block cigarette advertising to children.

“There isn’t any organization like AARP, and Novelli understood it,” says Tess Canja, who was president of AARP’s 21-member board in 2001, when Novelli got the post. “He's taken AARP a notch higher.”

‘Everybody’s Happy’

Novelli has reached out to younger Americans. TV commercials portray active middle-aged people, a switch from the scenes shown in the pre-Novelli era of elderly Americans sitting in wheelchairs.

In a 29-second video on YouTube, young and old people celebrate birthdays by blowing out candles, throwing cake, spinning in office chairs and ripping paper off packages while the British punk band Buzzcocks’ song “Everybody’s Happy Nowadays” plays.

“AARP is an organization for people who have birthdays,” a female voice-over says. “That’s because what we do, we do for all. Join us in championing your future, and the future of every generation.”

What AARP has done for Laupus hasn’t made him want to celebrate. The former social studies teacher, now a lecturer on films at Towson University in Towson, Maryland, says AARP let him down.

“I was under the assumption I would get discounts for automobile insurance, health insurance, house insurance,” Laupus says. Earlier this decade, he signed up for an AARP-endorsed auto policy for a 1997 Honda Accord and a 2002 Mitsubishi Lancer.

‘Best Possible Rate’

In 2007, he followed AARP’s Internet-based advice and went shopping for rates from other companies
for the same coverage. He says that of the 13 companies he checked, AARP/Hartford -- a unit of the Hartford, Connecticut-based insurance company Hartford Financial -- charged $700 a year more than the average.

"I figured they would be negotiating for me as a large group and get the best possible rates," says Laupus, a tall, gray-haired man who lives in Elkridge, Maryland. "But, dumb me, when I first bought their insurance I really didn't check around to find out what other companies were charging."

On March 16, 2007, Laupus wrote a letter to Novelli.

"I have been a customer of AARP/Hartford auto insurance for many years and never had a claim," Laupus wrote. He told Novelli he had compared his rates with eight companies and found AARP/Hartford to have the highest premiums.

Price Shopping

Laupus says he checked four other companies and found the same. He wrote that AARP/Hartford billed him $1,444 annually for the two cars. Laupus says Geico Corp., the insurance company owned by Warren Buffett’s Omaha, Nebraska-based Berkshire Hathaway Inc., offered a price that was half as much.

He then decided to lower that further by eliminating collision insurance on the Honda and raising the deductible for his Mitsubishi to $1,000 from $500. At the same time, he increased his bodily injury liability insurance to $300,000/$300,000 from $100,000/$300,000.

That brought the annual cost of insurance from Geico to $683.60.

In his letter, he explained those changes to Novelli. An AARP employee, Sharman Greber, replied two weeks later.

"I can certainly understand your concern over the cost of insurance coverage and would like to assure you that The Hartford’s goal is to provide the highest quality product at as fair a price as possible," Greber told Laupus in an April 2, 2007, letter.

'Dare I Say Kickbacks?'

Greber didn't respond to requests for comment. On April 10, 2007, Laupus wrote back, questioning AARP's dealings with The Hartford.

"What I'm asking, bottom line, is this: Does AARP have some 'special relationship' with The Hartford by which it receives commissions, incentives, rebates or dare I say 'kickbacks'?" he wrote.

Greber replied on April 25, 2007, writing that AARP contracts with The Hartford and other insurance companies include royalties. She first wrote that AARP talked to The Hartford.

"The representative did compare the quotations you received from Geico and Allstate, but was unable to match Geico's premium," she wrote.

She added, "The royalty fee paid to the Association is used to finance the many programs and services of AARP. The Association produced and distributed more than 11 million booklets and brochures last year free of charge to help older persons become better informed about issues from caregiving and widowhood to housing and consumer fraud."

Laupus responded on May 2, 2007.

'Rather Selfish'

"I don't purchase auto insurance to provide booklets and brochures about caregiving and widowhood," he wrote. "This may seem rather selfish of me, but I purchase auto insurance to insure my auto."

Laupus says AARP is playing games with words. "Notice it's not kickbacks, it's royalty fees," he says. "What a great euphemism."
David Snowden, spokesman for The Hartford, says his company offers competitive rates.

"While we lack information to speculate we could match the other company’s rate in 2007, there’s little doubt we could have come closer if Mr. Laupus requested the same policy features,” Snowden says.

**Landscaped Atrium**

After Laupus discovered his AARP car insurance rate was too high, he became determined to learn more about how his membership money was being spent. In September, he traveled to AARP’s Washington headquarters -- two 10-story buildings that are connected by an enclosed, landscaped atrium.

He strode into the lobby, dressed in khaki pants and a blue checkered shirt, hoping to take a tour. He noted the brass doors and the marble that stretched as far as he could see.

"It says to people that we’re a very wealthy organization and we can afford to spend your money,” Laupus says. After showing his AARP card and telling a guard he’d been a member for more than 20 years, he was turned away.

"We don’t give tours,” the guard told him. Laupus asked again, and the guard called AARP’s membership department, which also denied the request.

Alan Simpson, a former Republican U.S. senator from Wyoming who chaired a subcommittee in 1995 that examined AARP, says he’s not surprised the association keeps its doors closed.

‘It’s a Temple’

"It’s no wonder they don’t let you see,” Simpson, 77, says. “It’s a temple. Opulent would be the word.”

AARP spokesman Sohn says the building is closed to visitors so the staff can work.

"AARP takes the role of fighting for its 40 million members very seriously and this necessitates that our offices remain a place of business,” he says.

AARP says it uses some of the money it gets from insurance royalties to fund its efforts on behalf of seniors. But not everyone agreed its 2003 lobbying for a Medicare drug prescription plan was in the best interests of members.

President Bush pressed for prescription drug coverage for Medicare. He also wanted to turn administration of Medicare over to private companies instead of the government. AARP opposed the second goal.

Novelli and AARP’s lobbyists met with the Bush Administration and Congress and succeeded in removing privatization from the bill, says Christopher Hansen, who as AARP’s group executive officer for state and national initiatives oversaw the association’s Medicare lobbying.

‘We Forced That Out’

"We forced that out of the bill,” he says. “How? By refusing to support the legislation with that provision. It drew AARP into a big political fistfight. All AARP wanted was to get a drug benefit for its members.”

Thousands of AARP members said they objected to the legislation altogether. One reason was that the lowest-income seniors, people who had been using Medicaid, a federal health insurance program for low-income citizens, would have to pay more for medicine under the new law.

During the debate on the bill, two doctors at Harvard Medical School in Cambridge, Massachusetts, released a study that said the proposed changes would bring revenue to AARP at the expense of seniors.

“'AARP derives significant income from the sale of health insurance policies, and stands to make hundreds of millions more under the Medicare Prescription Drug bill,'” David Himmelstein and Steffie Woolhandler wrote on Nov. 22, 2003, as AARP was lobbying for the legislation.

AARP knew the proposal didn’t ensure complete prescription coverage, Hansen says.
‘It Wasn’t Perfect’

“It wasn’t perfect; it was flawed,” he says. AARP’s biggest concern was that the bill lacked adequate funding to fully cover the cost of drugs, Hansen says. Hansen, now CEO of Santa Clara, California-based AeA Inc., a trade association for technology companies, says Novelli had only good intentions.

Hansen also sympathizes with those who complained. “People who were against it had a right to be angry,” he says.

AARP felt it had to push an imperfect bill because it may not have had another opportunity to add a drug plan to Medicare, former board member Canja says.

“We thought our members could motivate Congress later to fix the things we didn’t like,” she says. After the legislation passed, 40,000 AARP members dropped out of the organization in protest, according to AARP.

For a While

Some members who didn’t quit have since concluded that their AARP-endorsed insurance costs are inflated. Richard Ostor of Indialantic, Florida, says he joined AARP seven years ago to get the lowest-cost car insurance.

He was satisfied with the insurance for a while -- until his rates started going up even though he had had no accidents or traffic tickets. In April, his AARP/Hartford premium rose to $950 a year. He shopped and switched to Geico after he found similar insurance for $640.

“AARP has great buying power, and people should be able to get the best deal,” says Ostor, 62, a retired divorce lawyer and bar owner. “AARP fell asleep at the switch or has a very sweet deal with The Hartford. This is unconscionable, what AARP has allowed to happen.”

Bill and Helen Cochran, an Abington, Maryland, couple who retired nine years ago, say they felt the same way when they learned they were paying more than they had to with AARP’s Medicare supplemental insurance.

Met at Shoe Factory

Relying primarily on Social Security income of just less than $1,400 a month, they had sold their 1,300-square-foot (121-square-meter) condominium and moved to a subsidized apartment less than half that size.

Bill and Helen, who married 34 years ago when they both worked at the Beta Shoe Co. factory in Belcamp, Maryland, looked for other ways to trim spending. They purchased AARP Medicare supplemental insurance.

At a picnic for seniors in June 2008, the Cochrans learned they were spending $1,079 a year more than Mutual of Omaha Insurance Co. charged for the same coverage. Bill, 72, says he called AARP to see if it could match the lower price.

“They didn’t want to hear that,” he says. “I told them I’d found a better price, and they didn’t ask me who I was going with, but they said they couldn’t do anything about it.”

Bill says his experience changed his view of AARP.

“I was kind of shocked,” he says. “They’re making money on the backs of the old people. I don’t think AARP is looking out for me.”

In the current economic crisis, $1,000 a year makes a big difference to a couple living on a fixed income, he says. “It just gets you to thinking about how much money they’re getting kicked back, and then we’re suffering by paying more for our premium,” he says.

‘Rates Are Competitive’
UnitedHealth spokesman Jonathan Stone says his firm’s insurance is affordable. "We believe our rates are competitive," he says. "Our plans all give overall value."

AARP-endorsed life insurance policies are also more expensive than comparable coverage by competitors, says Mark Maurer of Tampa, Florida-based Low Load Insurance Services Inc., which sells policies to seniors.

A New York Life $50,000 permanent life insurance policy for a 65-year-old man available through AARP costs $286.17 a month, Maurer found. He says the same man can buy a $50,000 policy for 51 percent less from Cincinnati-based Columbus Life Insurance Co.

After a half century of serving seniors, AARP may be slipping in its mission to members as its power grows, former AARP official Moon says.

“AARP grew often for the sake of growing, and not thinking about, Is this the best way to be?” she says.

With the U.S. economy suffering the worst financial crisis since the Great Depression, AARP has to decide if charging higher insurance rates in order to bolster its revenue by $497.6 million a year is the kind of help that seniors need.

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