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## Growing Younger

How profitable services and a savvy marketing campaign are fueling AARP's torrid growth

By SALLY B. DONNELLY

Everybody loves Grandma, right? But what if she's going to bankrupt the country? Every seven seconds an American turns 50, and the oldest baby boomers will reach 65 in four years. That generation accounts for 78 million Americans. They consume 40% of the federal budget through such programs as Social Security and Medicare. And policy experts fear that the coming wave of seniors could swamp those programs--leaving a gift of higher taxes and reduced benefits for their kids. "The crisis is coming--we know that," says Bill Novelli, CEO of AARP.

That's why, Novelli says, AARP will leverage its increasingly powerful brand to offer prescriptions for America's most pressing fiscal problems--and drive its own revenues to more than \$1 billion in the process.

Sources familiar with AARP say the group will for the first time acknowledge that "third rail" political issues like raising the retirement age, indexing Social Security benefits for age and increasing the taxable wage base need to be openly debated. And Novelli says AARP won't lobby just for its powerful constituency, the 37 million citizens over 50 who belong to his organization. "We have to be fair to all generations, and all options should be on the table," he says. "But AARP is going to be vocal and strong."

AARP can certainly throw its weight around. The organization is one of the country's most influential lobbying groups, with a membership about 10 times that of the National Rifle Association. In Washington, politicians from both major parties covet AARP's backing on a range of issues. That is in part because 1 out of every 4 voters in the past election, according to exit polls, was a member of AARP.

The group's support for President George W. Bush's Medicare drug plan gave the program a major boost in Congress, for instance. But the real shocker for critics--who claimed that AARP was acting out of self-interest--was that AARP's co-sponsored plan with United Healthcare lost \$12 million when the money spent on educating consumers about the new program was accounted for.

The organization plans to overhaul its marketing next year, remaking its logo (the new one is on the accompanying chart) and sharpening its well-established brand with ventures into the Internet and music. AARP plans to establish a massive new Web presence with a social network based at [AARP.org](http://AARP.org) and launch its own blog on current events. Also under way is a wide-ranging music-marketing campaign, including

sponsorship of its first-ever national concert tour (with Tony Bennett), a Web-based music-recommendation service and a music blog.

The organization can retail its wares and opinions through the nation's largest-circulation publications, AARP: The Magazine (bimonthly) and AARP Bulletin (monthly), which each have more than 20 million readers. It runs a nationally syndicated radio show, and its Spanish-language magazine, Segunda Juventud (Second Youth), has a circulation of 650,000.

AARP is also energizing its highly profitable royalty business, AARP Services Inc. It's a separate for-profit entity that arranges licensing and endorsement deals, renting the AARP name (and discount) on everything from rental cars to medication. AARP Services also provides health insurance with partner United Healthcare. Novelli says AARP Services is "the fuel that runs the jet engine."

Indeed, AARP wouldn't be the powerhouse it is today without those services. Royalties alone account for \$379 million in revenue. That's more than annual membership dues, which bring in \$229 million. In total, 40% of AARP's \$878 million in 2004 revenue came from royalties and service fees. AARP increased its revenues last year about 10.3%, to \$938 million, and spent about a third of that on getting current members or courting potential new ones.

That growing economic power gives AARP options it never had before. For years, it backed investment funds through a traditional financial-services company but increasingly grew frustrated with the performance and goals. Last year, after being turned down by more than two dozen investment firms, it created its own no-load investment funds. They have a clearly written prospectus and small minimum investment of \$100. The funds' advisers are rare in the business in that they are paid salaries, not commissions. The funds have attracted \$36 million so far, outpacing the \$24 million average of other new funds. "It is a good example of our triple bottom line, says Dawn Sweeney, head of AARP Services: "improve member value, drive social change and bring revenue back into the organization."

AARP's torrid growth hasn't come without controversy. Critics have long argued that the organization stretches the concept of nonprofit; an IRS probe in the '80s resulted in the creation of AARP Services--and a \$135 million fine.

It's true that AARP has seen a windfall, becoming the nation's largest Medigap insurer (providing drug coverage in circumstances that Medicare doesn't cover). In 2004 AARP earned \$197 million in insurance-related royalties and an additional \$23 million from investment insurance premiums, in both cases mostly from Medigap.

As for influencing public policy, Novelli isn't worried, even with gridlock looming in Washington. "What our members care about is the country and their kids. They want to leave a better place. It will be a lot of work, but we are a bunch of optimists."