



AARP

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

AARP
Consolidated Financial Statements
December 31, 2010 and 2009

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Board of Directors
AARP, Inc.:

We have audited the accompanying consolidated statements of financial position of AARP, Inc. and affiliates (collectively, AARP) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of AARP management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AARP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AARP as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 25, 2011

AARP

Consolidated Statements of Financial Position

December 31, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents (note 2(c))	\$ 627,957	718,306
Accounts receivable, net (note 5)	70,932	74,470
Prepaid expenses and other assets (note 8)	32,682	37,578
Investments (note 4)	1,503,465	1,086,161
Property and equipment, net (note 6)	311,600	311,188
Total assets	<u>\$ 2,546,636</u>	<u>2,227,703</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 151,452	104,442
Insurance premiums payable (note 3)	784,251	753,268
Deferred revenue and other liabilities	30,858	36,861
Deferred membership dues	471,498	449,073
Accrued pension liability (note 10)	89,856	78,413
Accrued postretirement health benefits (note 11)	73,353	72,864
Notes payable (note 7)	199,105	212,836
Total liabilities	<u>1,800,373</u>	<u>1,707,757</u>
Net assets:		
Unrestricted:		
Undesignated	325,592	235,314
Board designated (note 14)	411,396	276,360
Total unrestricted net assets	<u>736,988</u>	<u>511,674</u>
Temporarily restricted (note 15)	<u>9,275</u>	<u>8,272</u>
Total net assets	<u>746,263</u>	<u>519,946</u>
Total liabilities and net assets	<u>\$ 2,546,636</u>	<u>2,227,703</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended December 31, 2010

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenues:			
Membership dues	\$ 247,895	—	247,895
Royalties (note 3)	679,534	—	679,534
Publications advertising	122,572	—	122,572
Grant revenue (note 9)	144,326	—	144,326
Program income	48,838	—	48,838
Contributions	48,325	4,959	53,284
Other	2,730	—	2,730
Net assets released from restrictions	3,956	(3,956)	—
Total operating revenues	<u>1,298,176</u>	<u>1,003</u>	<u>1,299,179</u>
Operating expenses:			
Program services:			
Programs and field services	334,316	—	334,316
Publications	179,622	—	179,622
Member services	300,456	—	300,456
Legislation and research	76,877	—	76,877
Total program services	<u>891,271</u>	<u>—</u>	<u>891,271</u>
Supporting services:			
Membership development	125,286	—	125,286
Management and general	178,710	—	178,710
Total supporting services	<u>303,996</u>	<u>—</u>	<u>303,996</u>
Total operating expenses	<u>1,195,267</u>	<u>—</u>	<u>1,195,267</u>
Change in net assets from operations	102,909	1,003	103,912
Non-operating activity:			
Investment income (notes 3 and 4)	126,411	—	126,411
Investment gain from sinking fund (notes 4 and 7)	10,305	—	10,305
Income taxes (note 8)	(3,345)	—	(3,345)
Changes other than net periodic benefit cost (notes 10 and 11)	(10,966)	—	(10,966)
Change in net assets	225,314	1,003	226,317
Net assets, beginning of year	<u>511,674</u>	<u>8,272</u>	<u>519,946</u>
Net assets, end of year	<u>\$ 736,988</u>	<u>9,275</u>	<u>746,263</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended December 31, 2009

(In thousands)

	Unrestricted	Temporarily restricted	Total
Operating revenues:			
Membership dues	\$ 246,170	—	246,170
Royalties (note 3)	656,975	—	656,975
Publications advertising	112,651	—	112,651
Grant revenue (note 9)	105,383	—	105,383
Program income	60,981	—	60,981
Contributions	41,608	1,550	43,158
Other	2,260	—	2,260
Net assets released from restrictions	2,268	(2,268)	—
Total operating revenues	1,228,296	(718)	1,227,578
Operating expenses:			
Program services:			
Programs and field services	251,127	—	251,127
Publications	168,191	—	168,191
Member services	240,427	—	240,427
Legislation and research	100,877	—	100,877
Total program services	760,622	—	760,622
Supporting services:			
Membership development	80,686	—	80,686
Management and general	178,969	—	178,969
Total supporting services	259,655	—	259,655
Total operating expenses	1,020,277	—	1,020,277
Change in net assets from operations	208,019	(718)	207,301
Non-operating activity:			
Investment income (notes 3 and 4)	190,379	—	190,379
Investment gain from sinking fund (notes 4 and 7)	15,231	—	15,231
Income taxes (note 8)	(13,824)	—	(13,824)
Changes other than net periodic benefit cost (notest 10 and 11)	13,335	—	13,335
Change in net assets	413,140	(718)	412,422
Net assets, beginning of year	98,534	8,990	107,524
Net assets, end of year	\$ 511,674	8,272	519,946

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 226,317	412,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	33,778	33,408
Reserve for uncollectible accounts	47	124
Changes other than net periodic benefit cost	10,966	(13,335)
Net gain on investments	(95,409)	(148,508)
Deferred income taxes	(545)	(8,876)
Amortization of premium on investments	2	31
Changes in operating assets and liabilities:		
Accounts receivable	3,491	(4,175)
Prepaid expenses and other assets	5,388	(2,742)
Accounts payable and accrued expenses	47,010	4,412
Insurance premiums payable	30,983	42,026
Deferred revenue and other liabilities	(6,003)	5,160
Deferred membership dues	22,425	13,476
Accrued pension liability	(2,408)	(20,576)
Accrued postretirement health benefits	3,374	1,601
Total adjustments	53,099	(97,974)
Net cash provided by operating activities	279,416	314,448
Cash flows from investing activities:		
Purchases of property and equipment	(34,118)	(29,360)
Proceeds from sale and maturities of investments	671,885	1,209,753
Purchases of investments	(993,782)	(1,231,291)
Net cash used in investing activities	(356,015)	(50,898)
Cash flows from financing activities:		
Payments on commercial bank borrowings	(13,750)	(17,250)
Net cash used in financing activities	(13,750)	(17,250)
Net (decrease) increase in cash and cash equivalents	(90,349)	246,300
Cash and cash equivalents, beginning of year	718,306	472,006
Cash and cash equivalents, end of year	\$ 627,957	718,306
Supplemental disclosures:		
Cash paid for interest	\$ 10,232	10,807
Cash paid for income taxes	9,683	19,002

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Description of Organizations and Activities

(a) *AARP, Inc.*

AARP, Inc. was organized in 1958 as a District of Columbia not-for-profit corporation for the purpose of promoting the interests of older persons. AARP, Inc. is qualified as a tax-exempt social welfare organization under Section 501(c)(4) of the Internal Revenue Code (IRC). The mission of AARP, Inc. is to meet the needs and promote the independence, dignity, and purpose of persons 50 and older. The programs and activities of AARP, Inc. and its affiliates include education, advocacy, research, service programs, other social welfare activities, and charitable programs serving the needs of older persons.

AARP, Inc.'s programs, activities and operations are managed and supported primarily from its National Headquarters in Washington, D.C. AARP, Inc. and its affiliates also have offices in all fifty U.S. states, Washington, D.C., Puerto Rico, and the U.S. Virgin Islands, as well as a membership processing center located in Lakewood, California, and an advertising sales office in New York City.

(b) *AARP Services, Inc. and AARP Financial, Inc.*

AARP Services, Inc. (AARP Services) is a wholly owned taxable subsidiary of AARP, Inc., and was incorporated in Delaware in 1998.

Pursuant to an agreement with AARP, AARP Services is responsible for providing quality control services designed to ensure that licensees of AARP's intellectual property are using such property appropriately. AARP Services also provides membership development, new product development, institutional relationship services, and other services designed to support AARP's efforts to select, improve and expand member benefits and services made available to AARP members, and to improve the lives of the 50+ population. AARP Services receives fees from AARP for performing these services.

AARP Financial, Inc. (AARP Financial) was incorporated in Delaware in September 2005, as a wholly owned taxable subsidiary of AARP Services. AARP Financial was formed to design, develop and manage AARP, Inc. branded financial services and related products. AARP Financial's Board of Directors elected to discontinue operations as an investment advisor and administrator to the AARP Funds and AARP Portfolios; AARP Financial deregistered as an investment advisor with the U.S. Securities and Exchange Commission effective October 26, 2010. The AARP Funds and AARP Portfolios were liquidated on September 30, 2010. Effective December 30, 2010, AARP Services assumed all rights, title, and interest in the assets and liabilities of AARP Financial and absorbed all remaining AARP Financial operations.

(c) *AARP Insurance Plan*

The AARP Insurance Plan (the Plan) is a grantor trust established in 1958 by an Agreement and Declaration of Trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members. Insurance premiums collected by the Plan are paid directly by participants. At the direction of the third party insurance carriers, certain agreed upon payments are made for royalties payable to AARP, Inc. The Plan is administered by a Board of Trustees appointed by the Board of Directors of AARP, Inc.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(d) *AARP Foundation and AARP Institute*

AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. AARP Foundation is dedicated to serving vulnerable people 50+ by creating solutions that help them secure the essentials – food, housing, income and personal connection - and achieve their best life. AARP Foundation, an AARP affiliate, is a qualified nonprofit organization under Section 501(c)(3) of the IRC and is therefore exempt from federal income taxes on its charitable operations. In addition, AARP Foundation is a public charity as defined in Section 509(a)(1) of the IRC. AARP Foundation receives funding principally from the federal government, AARP, Inc., foundations, corporations and individuals. AARP Foundation's Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

AARP Institute (the Institute), a wholly owned subsidiary of AARP Foundation, was organized in 1963 as a District of Columbia not-for-profit corporation. The Institute qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC. AARP Foundation and the Institute are collectively referred to as the Foundation.

(e) *Legal Counsel for the Elderly*

Legal Counsel for the Elderly (LCE) was incorporated in the District of Columbia in 1980 for the purpose of providing free legal assistance and education to the elderly, primarily in the District of Columbia. LCE publishes manuals, conducts seminars on issues affecting the elderly, and operates legal services and long-term care ombudsman programs. LCE qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for LCE is obtained primarily through contributions from AARP, Inc., government grants, foundations, corporations and individuals. LCE's Board of Directors is comprised of seven members appointed by AARP, Inc.'s Chief Executive Officer.

(f) *Other Affiliates*

AARP Global Network is a limited liability company (LLC) formed to promote and deliver social change through a joint international commitment to assure that people 50 and older are better able to live fulfilling lives with dignity and purpose. AARP Andrus Insurance Fund LLC, a single-member LLC with AARP, Inc. as its sole member, was formed in 2007 to serve as a self-funding mechanism for the deductible portion of certain AARP, Inc. and affiliates insurance coverages with third party insurance carriers. Various special purpose taxable affiliated entities own and operate the AARP headquarters building located in Washington, D.C., the related parking garage facilities and buildings in California. These properties are primarily occupied by AARP, Inc. and its affiliates.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of the entities listed in note 1, collectively referred to as AARP.

All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements do not include the operations and accounts of over 1,700 local chapters of AARP that are organized and operated as separate entities. AARP neither controls nor derives beneficial economic interest from these organizations, as defined by U.S. generally accepted accounting principles.

AARP summarizes the costs of providing and managing its various programs and supporting activities on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain operating costs are allocated among the benefiting program and supporting services based on specific identification or reasonable allocation methodologies.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors for specific purposes.

Temporarily restricted – net assets subject to donor-imposed stipulations that will be met by actions of AARP and/or the passage of time.

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Although actual results could differ from these estimates, management does not believe that such differences will be material.

(c) *Cash Equivalents*

Investments with original maturities of three months or less are reported as cash equivalents. As of December 31, 2010 and 2009, \$170,000,000 and \$308,000,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

(d) *Accounts Receivable*

AARP estimates uncollectible amounts based on the aging of outstanding accounts receivable and management's estimate of their net realizable values.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(e) Investments

Investments in debt securities, institutional mutual funds, equity securities and derivative financial instruments are measured and reported at fair value. The fair value of debt securities, institutional mutual funds, and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges.

Debt securities, institutional mutual funds, equity securities and derivative financial instruments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. AARP management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. Changes in fair value are reported as investment income/gain in the accompanying consolidated statements of activities.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

(f) Property and Equipment

Property and equipment are stated at cost. Computer software is composed of external and certain qualifying internal costs related to software development. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered. If the sum of the undiscounted expected future cash flows is less than the carrying amount of an asset, AARP recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to 30 years. Maintenance and repair costs are expensed as incurred.

(g) Membership Dues

Membership dues are deferred upon receipt and recognized as revenue ratably over the membership term of one, two, three or five years.

(h) Royalties

Royalties are received from AARP branded third party providers of member benefit programs, in return for the rights to use AARP's intellectual property (including name, logo and mailing list) in offering programs. These royalties are recognized as revenue as earned.

The service provider United Healthcare Corporation accounted for 65% of total royalties earned in 2010 and 2009.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(i) ***Publications Advertising***

AARP sells advertising space in its major publications, which are provided to members without additional charge as part of their membership benefits. Advertising revenue is recognized as earned in the month of each publication's issue date.

(j) ***Grant Revenues***

The Foundation and LCE report activities under grant agreements as exchange transactions. Accordingly, grant-related revenue is recognized to the extent that allowable expenses are incurred under program agreements. Amounts reported as grants receivable represent grant program expenses incurred in advance of the receipt of funds. Funds received in advance of incurred grant program expenses are reported as deferred revenue. Federal funds are only received by the Foundation and LCE.

The Foundation and LCE receive a majority of their revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the governments or their designees. The liabilities, if any, arising from such compliance audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a significant effect on the financial position of the Foundation or LCE.

(k) ***Program Income***

AARP receives service fees from providers of and participants in member programs, for consulting and specific program services. These fees are recognized as earned.

(l) ***Contributions and Fundraising Expense***

AARP reports contributions as revenue when received or pledged by the donor. Contributions are reported as temporarily restricted revenue if such gifts are restricted by the donor to a specific program or include an explicit or implied time restriction.

Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Gifts whose donor-stipulated purposes are met in the same year as received are reported as unrestricted revenue.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation and LCE, while advocacy contributions are only received by AARP, Inc. Contributions also include in-kind contributed professional services totaling \$18,500,000 and \$15,611,000 for the years ended December 31, 2010 and 2009, respectively.

Fundraising expenses, which are reported as part of management and general expenses, were \$18,092,000 and \$17,837,000 for the years ended December 31, 2010 and 2009, respectively.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(m) Volunteer Services

AARP and its members benefit from the efforts of many volunteers. These in-kind contributions by volunteers are not recorded as revenue in the consolidated financial statements because they do not meet the requirements for recognition under U.S. generally accepted accounting principles.

(n) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in other income (expenses) in the period that includes the enactment date.

AARP does not believe that there are any unrecognized tax benefits/liabilities that should be recorded.

(o) Measure of Operating Results

AARP reports as operating all activities except for any required provision for federal and state income taxes, investment income and pension and post-retirement related changes other than net periodic benefit cost.

(p) Advertising Expenses

AARP expenses advertising costs as incurred except to the extent of any direct response marketing costs that qualify for capitalization. These costs include brand awareness, member acquisition and retention, member program marketing, and advocacy advertising. For the years ended December 31, 2010 and 2009, advertising expense was \$146,751,000 and \$115,902,000, respectively, and no costs were capitalized.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(q) Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to AARP's assumptions (unobservable inputs). AARP groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

At December 31, 2010 and 2009, the carrying value of financial instruments such as cash equivalents, accounts receivable, accounts payable and variable rate debt approximated their fair value, based on the short-term maturities or floating interest rates of these instruments. The fair values of investments, notes payable and fixed rate debt (with related swap agreements) are discussed in notes 4 and 7, respectively.

(r) Reclassifications

Certain reclassifications have been made to the 2009 reported amounts to conform to the 2010 presentation.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(3) Grantor Trust

AARP established a grantor trust for the purpose of making certain types of insurance available to its members through third party insurance carriers. Agreements between AARP, Inc., AARP Services, United HealthCare Corporation (United), Metropolitan Life Insurance Company (MetLife), Genworth Life Insurance Company (Genworth), and Aetna Life Insurance Company (Aetna) make certain types of insurance available to AARP members.

The Plan, a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements referenced above, 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 statements of activities. AARP derived 51% and 50% of total royalties from the Plan for the years ended December 31, 2010 and 2009, respectively. Billing of insurance premiums and issuance of certificates of insurance to insured members is the responsibility of the third party insurance carrier. The collection of premiums and submission of amounts due to the insurance carrier are classified as agency transactions and, as such, are not recorded as either revenue or expenses on the accompanying consolidated statements of activities. For the years ended December 31, 2010 and 2009, the Plan processed \$7.1 billion and \$6.8 billion, respectively, of premium payments from member participants.

The premiums are collected from insured members and are subsequently remitted to the third party insurance carriers, and are invested and recorded as an offsetting liability, insurance premiums payable on the consolidated statements of financial position. For the years ended December 31, 2010 and 2009, the Plan experienced a net investment gain of \$56,669,000 and \$89,985,000, respectively, which is included in investment income in the accompanying consolidated statements of activities.

At December 31, 2010 and 2009, insurance premiums payable were comprised of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Premiums payable to the insurance carriers	\$ 577,421	552,237
Payments received in advance	184,920	183,327
Partial and unprocessed payments	<u>21,910</u>	<u>17,704</u>
Total insurance premiums payable	<u>\$ 784,251</u>	<u>753,268</u>

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(4) Investments

Investments as of December 31, 2010 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
U.S Government and agency obligations	\$ 25,747	25,747	—
Mortgage-backed securities	57,016	—	57,016
U.S. corporate fixed income securities	112,852	6,906	105,946
International corporate fixed income securities	48,244	—	48,244
International equity securities	73,892	73,892	—
Emerging market equity securities	27,135	27,135	—
Small cap equity securities	29,621	29,621	—
Institutional mutual funds:			
Large-mid cap equity funds	247,487	—	247,487
International equity fund	98,373	—	98,373
Real asset funds	50,798	—	50,798
Emerging market income fund	10,014	—	10,014
Fixed income sector funds:			
Short term fund	14,626	—	14,626
Private ST floating II NAV fund	11,692	—	11,692
U.S. Government portfolio	130,029	—	130,029
Mortgage portfolio	298,679	—	298,679
Municipal portfolio	16,666	—	16,666
Real return bond fund	29,127	—	29,127
Private developing local market fund	5,147	—	5,147
Private emerging markets bond fund	21,995	—	21,995
International portfolio	52,349	—	52,349
High yield portfolio	7,305	—	7,305
Investment grade corporate portfolio	120,042	—	120,042
Asset-backed fund	14,629	—	14,629
	<u>\$ 1,503,465</u>	<u>163,301</u>	<u>1,340,164</u>

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Investments as of December 31, 2009 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
U.S Government and agency obligations	\$ 512	512	—
Mortgage-backed securities	23,603	—	23,603
U.S corporate fixed income securities	64,632	13,380	51,252
International corporate fixed income securities	6,451	—	6,451
International equity securities	67,874	67,874	—
Emerging market equity securities	19,150	19,150	—
Small cap equity securities	23,803	23,803	—
Institutional mutual funds:			
Large-mid cap equity funds	232,673	—	232,673
International equity fund	54,539	—	54,539
Real asset funds	37,509	—	37,509
Fixed income sector funds:			
Short term fund	25,207	—	25,207
U.S. bond market fund	18,519	—	18,519
U.S. Government portfolio	89,367	—	89,367
Mortgage portfolio	227,948	—	227,948
Municipal portfolio	15,807	—	15,807
Private emerging markets bond fund	14,514	—	14,514
International portfolio	44,268	—	44,268
High yield portfolio	6,230	—	6,230
Investment grade corporate portfolio	102,334	—	102,334
Asset-backed fund	11,221	—	11,221
	<u>\$ 1,086,161</u>	<u>124,719</u>	<u>961,442</u>

AARP uses quoted values and other data provided by a nationally recognized independent pricing service (pricing service) as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities based upon its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

Fixed income securities other than U.S. Treasury securities generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are included in the debt securities amount disclosed in Level 2 of the hierarchy. The values of U.S. Treasury securities are included in the debt securities amount disclosed in Level 1 based on unadjusted market prices.

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AARP's equity securities trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1.

AARP invests in several institutional mutual funds. These funds are not available to retail investors and are not publicly traded however, the underlying investments in these funds are publicly traded. The fair value estimates of such institutional mutual funds are based on net asset value (NAV) as provided by the investment manager. Because AARP has the ability to redeem its interest in these investments in the near term, such investments are classified as Level 2.

Information with respect to redemption terms, strategies, risks and funding commitments for these investments as of December 31, 2010 and 2009 is as follows (in thousands):

	<u>2010</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Large/mid cap equity funds (a)	\$ 247,487	daily or monthly	none or 30 days
International equity fund (b)	98,373	semi-monthly	2 days
Real asset funds (c)	50,798	daily	none
Fixed income sector funds (d)	722,286	daily	none
Emerging market income fund (e)	<u>10,014</u>	monthly	60 days
Total	<u>\$ 1,128,958</u>		

	<u>2009</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Large/mid cap equity funds (a)	\$ 232,673	daily or monthly	none or 30 days
International equity fund (b)	54,539	semi-monthly	2 days
Real asset funds (c)	37,509	daily	none
Fixed income sector funds (d)	<u>555,415</u>	daily	none
Total	<u>\$ 880,136</u>		

(a) This category is invested in two institutional mutual funds. One fund employs a passive investment strategy of seeking to replicate the performance of a large-cap index. The other fund is actively managed and seeks to outperform a different large-cap index than the previously mentioned fund. The fund employing a passive investment approach has no restrictions on redemptions and/or purchases and is approximately 81% of this investment class.

(b) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a global, developed market index.

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- (c) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversification outside of equities and fixed income investments, as well as additional sources of absolute return and income. During periods of strong stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.
- (d) This category is handled by one fund manager who employs different sector funds. This fund manager is given wide latitude under mutually-agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc.
- (e) This category is invested in emerging markets.

AARP does not have any unfunded commitments related to the above investments as of December 31, 2010.

AARP does not currently hold any Level 3 financial instruments. AARP did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2010.

Investment income for the years ended December 31, 2010 and 2009 was as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 41,307	57,102
Net gain	<u>95,409</u>	<u>148,508</u>
Total	<u>\$ 136,716</u>	<u>205,610</u>

Investment income as reported on the consolidated statements of activities was as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Investment income – operations	\$ 126,411	190,379
Investment gain – sinking fund	<u>10,305</u>	<u>15,231</u>
Total	<u>\$ 136,716</u>	<u>205,610</u>

As of December 31, 2010 and 2009, \$617,000,000 and \$451,200,000 of consolidated investments, respectively, is held by the AARP Insurance Plan for the payment of member insurance premiums.

Futures Contracts

The cash position on futures contracts settles daily for changes in their fair value. Realized and unrealized gains and losses based on changes in market values of open futures contracts were fully recognized in the accompanying consolidated statements of activities for the years ended December 31, 2010 and 2009. AARP had no direct exposure to futures contracts at December 31, 2010 and 2009, although they were used in several commingled funds.

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Notes to Consolidated Financial Statements

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(5) Accounts Receivable

Accounts receivable as of December 31 were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Royalties	\$ 38,981	37,780
Program fees	249	4,698
Publication advertising	12,482	9,527
Interest and dividends	1,516	503
Grants	10,859	14,791
Other	7,467	7,746
	<u>71,554</u>	<u>75,045</u>
Accounts receivable, gross		
Allowance for doubtful accounts	<u>(622)</u>	<u>(575)</u>
Accounts receivable, net	<u>\$ 70,932</u>	<u>74,470</u>

(6) Property and Equipment

Property and equipment as of December 31 were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Land	\$ 55,110	55,110
Buildings and improvements	254,860	253,952
Furniture and equipment	108,374	105,583
Computer software	111,025	84,690
Leasehold improvements	8,898	8,490
Less accumulated depreciation and amortization	<u>(226,667)</u>	<u>(196,637)</u>
Property and equipment, net	<u>\$ 311,600</u>	<u>311,188</u>

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Notes to Consolidated Financial Statements

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(7) Notes Payable

The carrying amounts of notes payable and other long-term debt as of December 31 were as follows (in thousands):

	2010	2009
Fixed rate notes, maturing May 2031, net of discount of \$895 in 2010 and \$914 in 2009	\$ 124,105	124,086
Variable rate notes, maturing May 2031	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034	25,000	25,000
Revolving credit facility, matured November 2010	—	13,750
Total notes payable	\$ 199,105	212,836

The maturity dates of notes payable were as follows (in thousands):

2031	\$ 175,000
2034	25,000
	\$ 200,000

Total interest expense incurred for the years ended December 31, 2010 and 2009 was \$9,792,000 and \$10,253,000, respectively.

(a) Fixed Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured fixed rate notes in the aggregate amount of \$125,000,000 for permanent financing of the AARP Headquarters Building and bearing interest at 7.5%. Interest is payable monthly. Based on the borrowing rates currently available to AARP for fixed rate bonds with similar terms and average maturities, the fair value of the \$125,000,000 fixed rate debentures is approximately \$167,828,000 and \$152,480,000 as of December 31, 2010 and 2009, respectively.

(b) Variable Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured variable rate notes in the amount of \$75,000,000, for permanent financing of the AARP Headquarters Building. The variable rates were effectively changed to approximately 5.40% fixed annual rates by AARP entering into two interest rate swap agreements with JP Morgan and Bank of America. Interest is payable monthly. On December 1, 2004, AARP made debt repayments of \$25,000,000 on these notes.

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Notes to Consolidated Financial Statements

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(c) ***District of Columbia Variable Rate Revenue Bonds***

On October 21, 2004, the Foundation issued 30 year District of Columbia Variable Rate Revenue Bonds Series 2004 in the amount of \$25,000,000 to finance the purchase of two condominium units located within the AARP Headquarters Building. The bonds bear interest at a variable rate determined by the Remarketing Agent, based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The Foundation may elect at any time to convert to a fixed interest rate. As of December 31, 2010 and 2009, the notes had an interest rate of 0.41% and 0.25%, respectively.

The Foundation has obtained a letter of credit to secure repayment of the bond financing of its office space. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of each bond outstanding.

(d) ***Revolving Credit Facility***

On January 3, 2005, AARP, Inc. obtained an unsecured revolving credit facility with a maximum principal amount of \$15,000,000 from a commercial bank. Borrowings under the credit facility bore interest at a floating LIBOR rate plus 92.50 basis points. As of December 31, 2009, the credit facility had an interest rate of 1.16%. On November 17, 2010, AARP repaid the outstanding balance on this revolving credit facility and it was not renewed.

On July 17, 2009, AARP Inc. entered into an unsecured revolving credit facility with a maximum principal amount of \$50,000,000 from a commercial bank. Borrowings under the credit facility bear interest at a floating LIBOR rate plus 70 basis points. AARP did not draw any funds from this line of credit facility in 2010. The credit facility expires July 15, 2011.

(e) ***Swap Agreements***

AARP Inc. has two interest rate swap agreements (swaps), each covering \$25,000,000 of the variable rate notes, which were executed to manage the variability of the interest expense associated with the floating rate debt. Under the swap agreements, AARP pays fixed annual rates of approximately 5.40% and receives an amount based on the notional amount of each swap at an interest rate equal to LIBOR. The terms of the swaps provide for net receipt or payment on the first of each month. The swaps are reported at their fair value on the accompanying consolidated statements of financial position as accounts payable and accrued expenses.

The net interest accrual, which is the difference between the monthly fixed payment on the swap and the variable receipt from the swap counter-party, is recorded as interest expense together with the interest expense on the fixed rate and other variable rate debt in the accompanying consolidated statements of activities. For the years ended December 31, 2010 and 2009, AARP recognized a gain of \$441,000 and \$322,000, respectively, on the change in fair value of the swaps. The estimates of fair value for such swaps as provided by an outside valuation firm are considered Level 2.

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Notes to Consolidated Financial Statements

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(f) Board Designated Sinking Fund

In 2001, the AARP Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes and bonds payable. The designated minimum funding is \$3,600,000 per year, to be transferred on or about January 1 of each year. The balance in the Sinking Fund as of December 31, 2010 and 2009 was \$83,083,000 and \$69,179,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The net investment gain on the Sinking Fund investments for the years ended December 31, 2010 and 2009 was \$10,305,000 and \$15,231,000, respectively.

(8) Income Taxes

The significant components of the provision for income taxes were as follows for the years ended December 31, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Current:		
Federal income tax	\$ 3,235	16,946
State income tax	1,074	5,754
Current income tax expense	<u>4,309</u>	<u>22,700</u>
Deferred:		
Federal income tax	(502)	(6,504)
State income tax	(462)	(2,372)
Deferred income tax benefit	<u>(964)</u>	<u>(8,876)</u>
Total income tax expense	<u>\$ 3,345</u>	<u>13,824</u>

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The significant components of the net deferred tax asset, which was included in prepaid expenses and other assets at December 31, 2010 and 2009, were as follows (in thousands):

	2010	2009
Deferred income tax assets:		
Employee benefits	\$ 3,107	1,624
Accrued expenses	1,205	1,906
Bad debt allowance	—	32
Deferred revenue	9,220	9,157
Depreciation	60	(85)
Total deferred income tax assets	13,592	12,634
Deferred income tax liability:		
Property tax expense	(15)	(21)
Total deferred income tax liability	(15)	(21)
Net deferred income tax asset	\$ 13,577	12,613

Income taxes paid by AARP, Inc. and AARP Services during 2010 and 2009 totaled \$9,683,000 and \$19,002,000, respectively, and consisted entirely of estimated federal and state income tax payments.

(9) Grant Revenue

The Foundation and LCE administer grants received from federal agencies and private organizations. The two largest grant programs are described below.

(a) WorkSearch Program

The WorkSearch program provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level. The WorkSearch program is primarily funded by the U.S. Department of Labor (DOL) with grants totaling approximately \$127 million and \$91 million for the years ended December 31, 2010 and 2009, respectively. The current DOL commitment expires in June 2011.

(b) Tax Counseling for the Elderly (Tax-Aide)

Tax-Aide provides volunteer assistance for federal and state income tax preparation assistance to low and moderate income persons throughout the country, with special attention to those 60 and older. The Tax-Aide program is primarily funded by AARP and the Internal Revenue Service (IRS) totaling approximately \$7 million and \$5 million for the years ended December 31, 2010 and 2009, respectively. The current IRS commitment expires in September 2011.

The continuation of all grant programs beyond expiration of the current agreements is subject to future commitment of funds by sponsoring agencies.

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Notes to Consolidated Financial Statements

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(10) Defined Benefit Pension Plan

Eligible employees of AARP participate in a noncontributory defined benefit pension plan called the AARP Employees' Pension Plan (the Plan). The Plan covers all employees meeting eligibility service requirements. AARP's funding policy is to contribute an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as actuarially determined, calculated on a level percentage of payroll costs basis, but not greater than the maximum tax deductible limit. Plan assets are invested in equity and fixed income securities managed by outside fund managers.

In 2010 and 2009, employer contributions to the Plan were \$30,000,000 and \$43,100,000, respectively. AARP was required to make an \$18,100,000 and \$0 contribution in 2010 and 2009, respectively. AARP plans to make a discretionary \$30,000,000 contribution in 2011.

The components of net periodic pension benefit cost for the years ended December 31, 2010 and 2009 were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Service cost	\$ 18,922	16,511
Interest cost	25,413	23,546
Expected return on plan assets	(25,183)	(23,040)
Amortization of actuarial loss	8,248	4,724
Amortization of prior service cost	193	198
Curtailement and termination charge	—	586
	<u>\$ 27,593</u>	<u>22,525</u>

As a result of a cost containment program, AARP had a curtailment charge of \$586,000 in 2009.

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Notes to Consolidated Financial Statements

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The following sets forth the funded status of the Plan and accrued pension liability shown in the accompanying consolidated statements of financial position at December 31 (in thousands):

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (425,855)	(357,612)
Service cost	(18,922)	(16,511)
Interest cost	(25,413)	(23,546)
Actuarial loss	(49,634)	(40,162)
Benefits paid	11,552	9,351
Curtailment and termination benefits	—	2,625
Benefit obligation at end of year	(508,272)	(425,855)
Change in plan assets:		
Fair value at beginning of year	347,442	243,848
Actual return on plan assets	52,526	69,845
Contribution to the plan	30,000	43,100
Benefits paid	(11,552)	(9,351)
Fair value at end of year	418,416	347,442
Accrued pension liability	\$ (89,856)	(78,413)

At December 31, 2010 and 2009, the accumulated benefit obligation was \$462,170,000 and \$379,899,000 respectively.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2010 and 2009 measurement dates were as follows:

	2010	2009
Discount rate	5.45%	6.00%
Future salary increases	4.00	4.00

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2010 and 2009 measurement dates were as follows:

	2010	2009
Discount rate	6.00%	6.15%/6.65%
Expected long-term rate of return on plan assets	7.50	7.50
Future salary increases	4.00	4.00

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From January 1, 2009 through March 31, 2009, the discount rate used to determine net periodic benefit cost was 6.15%. The discount rate was changed to 6.65% effective April 1, 2009 in response to a curtailment within the Plan.

In order to determine an appropriate return on plan assets, AARP considers its current asset allocation along with historical and expected returns that can be achieved with the various asset types in the Plan. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 7.5%.

The weighted average asset allocation for plan assets was as follows at December 31:

	2010	2009
Asset categories:		
Equity securities	68%	67%
Debt securities	26	28
Alternatives	5	5
Cash equivalents	1	—
	100%	100%

The targeted allocation of the investment assets in the Plan is for equities to comprise 65% of the investment portfolio, debt securities to comprise 30%, and alternatives to comprise the remaining 5%. These targets are not intended to serve as a rigid constraint on the investment allocation. The following chart sets out the minimum and maximum positions for the various asset classes in the Plan:

	Minimum	Target	Maximum
Asset class:			
Equity securities	61%	65%	71%
Debt securities	24	30	32
Alternatives	—	5	7
Cash equivalents	—	—	7

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Notes to Consolidated Financial Statements

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As of December 31, 2010 and 2009, the fair value measurement of AARP's pension plan assets by their classification within the fair value hierarchy was as follows (in thousands):

	<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>
Cash & cash equivalents and receivables	\$ 4,605	4,605	—
Common stocks	68,782	68,782	—
Preferred stock	557	557	—
Institutional mutual funds:			
Real asset fund	21,146	—	21,146
Fixed income sector funds:			
Asset-backed securities portfolio	2,229	—	2,229
Emerging markets portfolio	3,332	—	3,332
High yield portfolio	1,154	—	1,154
International portfolio	7,989	—	7,989
Investment grade corporate portfolio	18,246	—	18,246
Mortgage portfolio	45,306	—	45,306
Municipal sector portfolio	2,440	—	2,440
Developing local market portfolio	787	—	787
Various short term portfolios	3,360	—	3,360
Real return portfolio	4,412	—	4,412
U.S. Government sector portfolio	19,764	—	19,764
Large cap fund	151,305	—	151,305
Mid cap fund	45,519	—	45,519
Emerging market income fund	17,483	—	17,483
	<u>\$ 418,416</u>	<u>73,944</u>	<u>344,472</u>
	<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>
Cash & cash equivalents and receivables	\$ 2,637	2,637	—
Common stocks	118,041	118,041	—
Preferred stock	364	364	—
Corporate obligations and mortgage-backed securities	4,770	—	4,770
Publicly traded fixed income funds	92,510	92,510	—
Institutional mutual funds:			
Real asset funds	17,155	—	17,155
Large/Mid cap equity funds	97,628	—	97,628
Emerging markets equity fund	14,337	—	14,337
	<u>\$ 347,442</u>	<u>213,552</u>	<u>133,890</u>

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The fair value of the institutional mutual fund investments have been estimated using the net asset value per share of the investment.

Information with respect to redemption terms, strategies, risk and funding commitments for these investments as of December 31, 2010 and 2009 is as follows (in thousands):

	Fair Value	Redemption Frequency	Redemption Notice Period
Real asset fund (a)	\$ 21,146	daily	none
Fixed income sector funds (b)	109,019	daily	none
Large cap fund (c)	151,305	daily	none
Mid cap fund (d)	45,519	daily	none
Emerging market income fund (e)	17,483	daily	none
Total	\$ 344,472		

- (a) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversification outside of equities and fixed income investments, as well as additional sources of absolute return and income. During periods of strong stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.
- (b) This category is handled by one fund manager who employs different sector funds. This fund manager is given wide latitude under mutually-agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc.
- (c) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a large-cap market index.
- (d) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a mid-cap market index.
- (e) This category is invested in a single institutional mutual fund. The fund is actively managed and seeks to provide returns in excess of a well-established international market index.

The Plan does not have any unfunded commitments related to the above investments as of December 31, 2010. The Plan did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2010.

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The following benefit payments, which reflect expected future service, are expected to be paid (in thousands):

2011	\$	13,512
2012		15,419
2013		17,351
2014		19,346
2015		21,495
Years 2016 – 2020		142,464

Amounts not yet recognized as a component of net periodic benefit cost for 2010 and 2009 (in thousands):

		2010	2009
Net actuarial loss	\$	125,810	111,766
Prior service cost		539	732
	\$	126,349	112,498

Estimated amounts to be amortized into net periodic benefit cost in 2011 are \$14,121,000 from actuarial loss and \$193,000 from prior service cost.

(11) Postretirement Health Benefits

All employees of AARP and its affiliates may become eligible for continuing health care benefits after retirement if they meet minimum age and service requirements and are covered by an AARP employee health insurance plan at the date of retirement. Healthcare benefits are provided through the AARP Employees' Welfare Plan (the Welfare Plan).

The components of net periodic postretirement health benefit cost for the years ended December 31, 2010 and 2009 are as follows (in thousands):

		2010	2009
Service cost	\$	2,388	2,185
Interest cost		4,267	4,367
Amortization of actuarial gain		(685)	(809)
Amortization of prior service credit		(702)	(718)
Curtailment gain		—	(1,630)
	\$	5,268	3,395

As a result of a cost containment program, AARP had a curtailment gain of \$1,630,000 in 2009.

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The following sets forth the changes in benefit obligations, changes in plan assets, and the composition of accrued postretirement benefit cost shown in the accompanying consolidated statements of financial position at December 31 (in thousands):

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (72,864)	(69,823)
Service cost	(2,388)	(2,185)
Interest cost	(4,267)	(4,367)
Actuarial gain	4,272	696
Participant contributions	(278)	(263)
Benefits paid	2,172	2,057
Curtailment and termination benefits	—	1,021
	<u>\$ (73,353)</u>	<u>(72,864)</u>
Change in plan assets:		
Fair value at beginning of year	\$ —	—
Employer contribution	2,168	2,089
Plan participants' contributions	278	263
Benefits paid	(2,446)	(2,352)
	<u>\$ —</u>	<u>—</u>
Accrued postretirement health benefits	<u>\$ (73,353)</u>	<u>(72,864)</u>

As of December 31, 2010 and 2009, the weighted average discount rates used in the actuarial valuation were as follows:

	2010	2009
End of year benefit obligation	5.45%	6.00%
Net periodic benefit cost	6.00%	6.15/6.65%

From January 1, 2009 through March 31, 2009, the discount rate used to determine net periodic benefit cost was 6.15%. The discount rate was changed to 6.65% effective April 1, 2009 in response to a curtailment within the Plan.

For measurement purposes, the health care cost trend rate was 8% for 2010 (the rate is assumed to decrease gradually to 5% in 2017 and remain level thereafter).

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The following benefit payments are expected to be paid (in thousands):

2011	\$	3,472
2012		3,863
2013		4,251
2014		4,659
2015		5,074
Years 2016 – 2020		30,788

Amounts not yet recognized as a component of net periodic benefit cost at 2010 and 2009 (in thousands):

		2010	2009
Net actuarial gain	\$	16,208	12,621
Prior service credit		5,690	6,392
	\$	21,898	19,013

Estimated amounts to be amortized into net periodic benefit cost in 2011 are \$715,000 from actuarial gain and \$702,000 from prior service credit.

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2010, would have resulted in an \$11,414,000 increase or a \$9,293,000 decrease in the accumulated postretirement benefit obligation, and a \$1,374,000 increase or a \$1,079,000 decrease in the 2010 aggregate service and interest cost.

The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2009, would have resulted in an \$11,605,000 increase or a \$9,439,000 decrease in the accumulated postretirement benefit obligation, and a \$1,469,000 increase or a \$1,148,000 decrease in the 2009 aggregate service and interest cost.

(12) Employee Health Care Benefits

AARP operates under a “pay as you go” model for employee health benefits, with obligations being funded from general corporate assets. For the years ended December 31, 2010 and 2009, expenses for the AARP Welfare Plan for current health care benefits were \$19,662,000 and \$19,976,000, respectively. As of December 31, 2010 and 2009, AARP had a liability related to these benefits of \$3,554,000 and \$3,697,000, respectively, which was included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

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(13) Defined Contribution Plan

Effective January 1, 1998, AARP and certain affiliates participate in a single-employer defined contribution plan through the AARP Employees' 401(k) Plan.

AARP provides an employer contribution to the 401(k) Plan, which matches 100% of employee contributions up to 3% of employee compensation, and 50% of employee contributions for the next 2% of employee compensation, up to the maximum limit allowed by law. As part of a cost containment program, AARP suspended the employer match as of April, 2009 and reinstated the program for 2010. For the years ended December 31, 2010 and 2009, AARP employer contributions to this plan totaled \$9,068,000 and \$2,620,000, respectively.

(14) Board Designated Unrestricted Net Assets

Board designated net assets at December 31, 2010 and 2009 were available to fund the following (in thousands):

	<u>2010</u>	<u>2009</u>
Debt retirement sinking fund	\$ 83,083	69,179
Investment earnings reserve	291,030	172,765
Foundation quasi-endowment	15,218	13,419
Foundation board designated operating reserve	19,016	18,122
LCE quasi-endowments	2,988	2,610
Other board designations	61	265
Board designated net assets	<u>\$ 411,396</u>	<u>276,360</u>

(15) Temporarily Restricted Net Assets

Temporarily restricted net assets consists of net assets restricted for use for specific program purposes and assets available for future periods.

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Notes to Consolidated Financial Statements

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(16) Commitments and Contingencies

(a) Lease Commitments

AARP leases offices, information centers, and warehouse facilities in 93 locations in the U.S. and its territories under operating leases with various lease terms. Total rent expense incurred under operating leases was \$19,422,000 and \$19,335,000 in 2010 and 2009, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2010 are (in thousands):

2011	\$	16,732
2012		15,868
2013		14,237
2014		11,132
2015		9,753
2016 – 2022		<u>38,681</u>
Total	\$	<u><u>106,403</u></u>

(b) Contingencies

In the normal course of business, AARP is subject to various claims and lawsuits. Certain lawsuits may be covered, in full or in part, by external insurance coverage. AARP is named in lawsuits relating to the benefits offered by AARP endorsed third party providers. AARP has vigorously defended these suits and will continue to do so. The amount of loss from these lawsuits, if any, could not be estimated as of December 31, 2010.

(17) Subsequent Events

In preparing these financial statements, AARP has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued, March 25, 2011.