Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AARP

For the years ended December 31, 2012 and 2011

AARP

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Audit • Tax • Advisory

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
AARP, Inc.:

We have audited the accompanying consolidated financial statements of AARP, Inc. and affiliates (collectively, "AARP"), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AARP, Inc. and affiliates as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The consolidated financial statements of AARP, Inc. and affiliates as of and for the year ended December 31, 2011 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2011 consolidated financial statements in their report dated March 23, 2012.

Grant Thornton LLP

Washington, D.C.
March 22, 2013

AARP
Consolidated Statements of Financial Position
As of December 31, 2012 and 2011
(in thousands)

	2012	2011
ASSETS		
Cash and cash equivalents (Note 2)	$ 493,693	$ 525,772
Accounts receivable, net (Notes 2 and 5)	79,106	70,826
Prepaid expenses and other assets (Note 8)	36,293	39,801
Investments (Notes 2 and 4)	2,104,636	1,758,380
Property and equipment, net (Notes 2 and 6)	313,243	316,384
Total assets	$ 3,026,971	$ 2,711,163
LIABILITIES		
Accounts payable and accrued expenses	$ 188,507	$ 159,595
Insurance premiums payable (Note 3)	892,121	842,318
Deferred revenue and other liabilities (Note 2)	24,399	27,096
Deferred membership dues (Note 2)	495,914	475,085
Accrued pension liability (Note 10)	266,606	148,775
Accrued postretirement health benefits (Note 11)	83,447	80,516
Notes payable (Note 7)	199,146	199,125
Total liabilities	2,150,140	1,932,510
NET ASSETS		
Unrestricted:		
Undesignated (Note 2)	275,014	328,803
Board designated (Notes 2 and 14)	598,740	444,892
Total unrestricted net assets	873,754	773,695
Temporarily restricted (Notes 2 and 15)	3,077	4,958
Total net assets	876,831	778,653
Total liabilities and net assets	$ 3,026,971	$ 2,711,163

The accompanying notes are an integral part of these consolidated financial statements.

AARP
Consolidated Statement of Activities
For the year ended December 31, 2012
(in thousands)

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES			
Membership dues (Note 2)	$ 281,102	$ -	$ 281,102
Royalties (Notes 2 and 3)	723,840	-	723,840
Publications advertising (Note 2)	131,330	-	131,330
Grant revenue (Notes 2 and 9)	94,444	-	94,444
Program income (Note 2)	50,863	-	50,863
Contributions (Note 2)	97,739	2,008	99,747
Other	5,620	-	5,620
Net assets released from restrictions	3,889	(3,889)	-
Total operating revenues	1,388,827	(1,881)	1,386,946
OPERATING EXPENSES			
Program services:			
Programs and field services	344,114	-	344,114
Publications	184,392	-	184,392
Member services	321,851	-	321,851
Legislation and education	174,142	-	174,142
Total program services	1,024,499	-	1,024,499
Supporting services:			
Membership development	158,158	-	158,158
Management and general (Note 2)	165,154	-	165,154
Total supporting services	323,312	-	323,312
Total operating expenses	1,347,811	-	1,347,811
Change in net assets from operations	41,016	(1,881)	39,135
NON-OPERATING ACTIVITY			
Investment income (Notes 2, 3 and 4)	151,521	-	151,521
Investment income from sinking fund (Notes 2, 4 and 7)	12,076	-	12,076
Income taxes (Notes 2 and 8)	(4,081)	-	(4,081)
Charges other than net periodic benefit cost (Notes 10 and 11)	(101,162)	-	(101,162)
Inherent contribution - acquisition of Experience Corps (Note 2)	689	-	689
Change in net assets	100,059	(1,881)	98,178
Net assets, beginning of year	773,695	4,958	778,653
Net assets, end of year	$ 873,754	$ 3,077	$ 876,831

The accompanying notes are an integral part of this consolidated financial statement.

AARP
Consolidated Statement of Activities
For the year ended December 31, 2011
(in thousands)

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES			
Membership dues	$ 265,845	$ -	$ 265,845
Royalties (Notes 2 and 3)	704,630	-	704,630
Publications advertising (Note 2)	129,407	-	129,407
Grant revenue (Notes 2 and 9)	100,744	-	100,744
Program income (Note 2)	44,086	-	44,086
Contributions (Note 2)	94,640	1,675	96,315
Other	2,642	-	2,642
Net assets released from restrictions	5,992	(5,992)	-
Total operating revenues	1,347,986	(4,317)	1,343,669
OPERATING EXPENSES			
Program services:			
Programs and field services	322,634	-	322,634
Publications	173,568	-	173,568
Member services	315,534	-	315,534
Legislation and education	111,644	-	111,644
Total program services	923,380	-	923,380
Supporting services:			
Membership development	129,669	-	129,669
Management and general (Note 2)	211,838	-	211,838
Total supporting services	341,507	-	341,507
Total operating expenses	1,264,887	-	1,264,887
Change in net assets from operations	83,099	(4,317)	78,782
NON-OPERATING ACTIVITY			
Investment income (Notes 2, 3 and 4)	17,911	-	17,911
Investment loss from sinking fund (Notes 2, 4 and 7)	(1,842)	-	(1,842)
Income taxes (Notes 2 and 8)	(5,808)	-	(5,808)
Charges other than net periodic benefit cost (Notes 10 and 11)	(56,653)	-	(56,653)
Change in net assets	36,707	(4,317)	32,390
Net assets, beginning of year	736,988	9,275	746,263
Net assets, end of year	$ 773,695	$ 4,958	$ 778,653

The accompanying notes are an integral part of this consolidated financial statement.

AARP
Consolidated Statements of Cash Flows
For the years ended December 31, 2012 and 2011
(in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 98,178	$ 32,390
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,694	37,366
Reserve (recovery) for uncollectible accounts	218	(73)
Charges other than net periodic benefit cost	101,162	56,653
Net (gain) loss on investments	(127,204)	30,391
Deferred income taxes	(930)	1,901
Changes in operating assets and liabilities:		
Accounts receivable	(8,498)	(3,726)
Prepaid expenses and other assets	4,385	(5,168)
Accounts payable and accrued expenses	28,912	8,143
Insurance premiums payable	49,803	58,067
Deferred revenue and other liabilities	(2,697)	(3,762)
Deferred membership dues	20,829	3,587
Accrued pension liability	15,731	6,942
Accrued postretirement health benefits	3,869	2,487
Net cash provided by operating activities	222,452	225,198
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(35,479)	(42,077)
Proceeds from sale and maturities of investments	977,121	1,021,245
Purchases of investments	(1,196,173)	(1,306,551)
Net cash used in investing activities	(254,531)	(327,383)
Net decrease in cash and cash equivalents	(32,079)	(102,185)
Cash and cash equivalents, beginning of year	525,772	627,957
Cash and cash equivalents, end of year	$ 493,693	$ 525,772
Supplemental disclosures:		
Cash paid for interest	$ 9,547	$ 9,796
Cash paid for income taxes	$ 1,074	$ 6,580

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF ORGANIZATIONS AND ACTIVITIES

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.

AARP Services, Inc.

AARP Services, Inc. (AARP Services) is a wholly owned taxable subsidiary of AARP, Inc., and was incorporated in Delaware in 1998. AARP Services' Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

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 Services' Board of Directors is comprised of members appointed by AARP, Inc.'s Board of Directors.

AARP Insurance Plan

The AARP Insurance Plan (Plan), also referred to as the AARP Health Trust, 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 or for the general benefit, good and welfare of AARP. 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.

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"), an affiliate 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.

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.

AARP Experience Corps

AARP Experience Corps (EC) was incorporated in the District of Columbia in 2008. EC is a not-for-profit organization, qualified as tax-exempt under Section 501(c)(3) of the IRC, formed to engage experienced adults in high-impact community service and leadership activities and to promote the importance of the contributions these individuals make to their communities. These activities are funded primarily through federal and nonfederal grants and contributions from AARP, Inc.

Other Affiliates

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. In addition, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 almost 1,500 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase. As of December 31, 2012 and 2011, $402,000,000 and $207,000,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

Concentrations of Credit Risk

Financial instruments that potentially subject AARP to concentrations of credit risk consist principally of cash and cash equivalents and investments in U.S. treasury securities, fixed income funds, equity funds and similar interests. AARP maintains its cash and cash equivalents in various bank accounts and money market funds that, at times, may exceed federally insured limits. AARP's cash and cash equivalent accounts were placed with high credit quality financial institutions. AARP has not experienced, nor does it anticipate, any losses in such accounts.

Accounts Receivable

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

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as investment income in the accompanying consolidated statements of activities.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service (pricing service).

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

Institutional mutual funds are carried at net asset 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. In 2012 and 2011, the estimated fair values represented approximately 57% and 64%, respectively, of total investments.

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.

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. 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 thirty years. Maintenance and repair costs are expensed as incurred.

Membership Dues

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

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 2012 and 2011.

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.

Grant Revenues

The Foundation, LCE and Experience Corps 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, LCE and Experience Corps.

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.

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 and/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, LCE and Experience Corps, while advocacy contributions are only received by AARP, Inc. Contributions also include in-kind contributed professional services totaling $42,486,000 and $36,622,000 for the years ended December 31, 2012 and 2011, respectively.

Fundraising expenses, which are reported as part of management and general expenses, were $22,725,000 and $20,660,000 for the years ended December 31, 2012 and 2011, respectively.

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.

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.

Measure of Operations

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

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, 2012 and 2011, advertising expense was $204,103,000 and $187,490,000, respectively, and no costs were capitalized.

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, 2012 and 2011, 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.

3. GRANTOR TRUST

AARP established a grantor trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members or for the general benefit, good and welfare of AARP. 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 52% and 51% of total royalties from the Plan for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the Plan processed $7.8 billion and $7.5 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, 2012 and 2011, the Plan experienced net investment income of $59,191,000 and $14,484,000, respectively, which is included in investment income in the accompanying consolidated statements of activities.

At December 31, 2012 and 2011, insurance premiums (in thousands) payable were comprised of the following:

	2012	2011
Premiums payable to the insurance carriers	$ 649,464	$ 611,399
Payments received in advance	218,915	211,622
Partial and unprocessed payments	23,742	19,297
Total insurance premiums payable	$ 892,121	$ 842,318

4. INVESTMENTS

Investments as of December 31, 2012 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	Total	Level 1	Level 2
Investments:			
U.S Treasury securities	$ 96,217	$ 96,217	$ -
Municipal government fixed income securities	1,097	-	1,097
Foreign government fixed income securities	15,944	-	15,944
Mortgage-backed fixed income securities	121,259	-	121,259
U.S. corporate fixed income securities	281,586	10,930	270,656
International corporate fixed income securities	126,489	-	126,489
International equity securities	97,050	97,050	-
Emerging market equity securities	27,293	27,293	-
Large-mid cap equity securities	65,539	65,539	-
Small cap equity securities	53,276	53,276	-
Institutional mutual funds:			
Large-mid cap equity funds	249,446	-	249,446
International equity funds	172,883	-	172,883
Real asset funds	64,006	-	64,006
Emerging market income fund	10,453	-	10,453
Emerging equity fund	15,671	-	15,671
Fixed income sector funds:			
Short-term fund	14,317	-	14,317
Private ST floating II NAV fund	38,091	-	38,091
U.S. Government portfolio	105,562	-	105,562
Mortgage portfolio	221,307	-	221,307
Municipal portfolio	7,563	-	7,563
Real return bond fund	99,980	-	99,980
Private emerging markets bond fund	22,719	-	22,719
International portfolio	57,452	-	57,452
High yield portfolio	13,808	-	13,808
Investment grade corporate portfolio	110,068	-	110,068
Asset-backed fund	15,560	-	15,560
	$ 2,104,636	$ 350,305	$ 1,754,331

Investments as of December 31, 2011 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	Total	Level 1	Level 2
Investments:			
U.S Treasury securities	$ 65,925	$ 65,925	$ -
Foreign government fixed income securities	7,853	-	7,853
Mortgage-backed fixed income securities	114,774	-	114,774
U.S. corporate fixed income securities	206,457	7,555	198,902
International corporate fixed income securities	62,153	-	62,153
International equity securities	50,422	50,422	-
Emerging market equity securities	22,308	22,308	-
Large-mid cap equity securities	57,305	57,305	-
Small cap equity securities	45,856	45,856	-
Institutional mutual funds:			
Large-mid cap equity funds	193,552	-	193,552
International equity funds	119,394	-	119,394
Real asset funds	59,137	-	59,137
Emerging market income fund	9,755	-	9,755
Emerging equity fund	6,180	-	6,180
Fixed income sector funds:			
Short-term fund	14,387	-	14,387
Private ST floating II NAV fund	35,982	-	35,982
U.S. Government portfolio	129,343	-	129,343
Mortgage portfolio	240,930	-	240,930
Municipal portfolio	7,633	-	7,633
Real return bond fund	87,584	-	87,584
Private developing local market fund	3,383	-	3,383
Private emerging markets bond fund	22,192	-	22,192
International portfolio	61,428	-	61,428
High yield portfolio	13,013	-	13,013
Investment grade corporate portfolio	106,449	-	106,449
Asset-backed fund	14,985	-	14,985
	$ 1,758,380	$ 249,371	$ 1,509,009

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

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, 2012 and 2011 is as follows (thousands):

	2012 Fair Value	Redemption Frequency	Redemption Notice Period
Large-mid cap equity funds (a)	$ 249,446	daily	2 days
International equity funds (b)	172,883	semi-monthly or monthly	none or 2 days
Real asset funds (c)	64,006	daily	none
Fixed income sector funds (d)	706,426	daily	none
Emerging market equity and income funds (e)	26,124	semi-monthly or monthly	2 days or 60 days
Total	$ 1,218,885		

	2011 Fair Value	Redemption Frequency	Redemption Notice Period
Large-mid cap equity funds (a)	$ 193,552	daily	2 days
International equity funds (b)	119,394	daily, semi-monthly or monthly	none or 2 days
Real asset funds (c)	59,137	daily	none
Fixed income sector funds (d)	737,309	daily	none
Emerging market equity and income funds (e)	15,935	semi-monthly or monthly	2 days or 60 days
Total	$ 1,125,327		

(a) This category is invested in two institutional mutual funds. Both funds employ a passive investment strategy seeking to replicate the performance of two different benchmarks. One index has a large-cap benchmark, while the other index has a mid-cap benchmark.

(b) This category is invested in two institutional mutual funds. One fund, which allows for semi-monthly redemptions and purchases, employs a passive investment strategy seeking to replicate the performance of a global, developed market index. This fund represents approximately 94% of the investment class. Another institutional fund, which allows monthly redemptions and purchases, employs an active investment approach as it seeks to outperform the same index as the aforementioned passive fund.

(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, and finally, 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 two emerging market institutional funds. One fund employs an active investment strategy of seeking to replicate the performance of a global market index. This fund, which is approximately 40% of the asset class, allows for monthly purchases and redemptions. The other fund employs a passive investment strategy to replicate the performance of a different global benchmark. This fund allows for semi-monthly redemptions and purchases.

AARP did not have any unfunded commitments related to the above investments as of December 31, 2012 and 2011. AARP does not currently hold any Level 3 financial instruments and did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2012 and 2011.

Investment income for the years ended December 31, 2012 and 2011 was as follows (in thousands):

	2012	2011
Interest and dividend income	$ 36,393	$ 46,460
Net gain (loss)	127,204	(30,391)
Total	$ 163,597	$ 16,069

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

	2012	2011
Investment income	$ 151,521	$ 17,911
Investment gain (loss) - sinking fund	12,076	(1,842)
Total	$ 163,597	$ 16,069

As of December 31, 2012 and 2011, $629,000,000 and $638,000,000 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, 2012 and 2011. AARP had no direct exposure to futures contracts at December 31, 2012 and 2011, although they were used in several commingled funds.

5. ACCOUNTS RECEIVABLE

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

	2012	2011
Royalties	$ 46,339	$ 41,471
Program fees	4,540	995
Publication advertising	11,569	13,488
Interest and dividends	2,998	2,179
Grants	4,440	3,995
Other	9,987	9,247
Accounts receivable, gross	79,873	71,375
Less: Allowance for doubtful accounts	(767)	(549)
Accounts receivable, net	$ 79,106	$ 70,826

6. PROPERTY AND EQUIPMENT, NET

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

	2012	2011
Land	$ 53,023	$ 55,110
Buildings and improvements	246,773	256,183
Furniture and equipment	113,182	112,408
Computer software	169,783	139,192
Leasehold improvements	9,650	9,070
	592,411	571,963
Less accumulated depreciation and amortization	(279,168)	(255,579)
Property and equipment, net	$ 313,243	$ 316,384

7. NOTES PAYABLE

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

	2012	2011
Fixed rate notes, maturing May 2031, net of discount of $854 in 2012 and $875 in 2011 (a)	$ 124,146	$ 124,125
Variable rate notes, maturing May 2031 (b)	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034 (c)	25,000	25,000
Total notes payable	$ 199,146	$ 199,125

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, 2012 and 2011 was $9,573,000 and $9,532,000, 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 which bear interest at 7.5%. Interest is payable semi-annually. 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 $187,359,000 and $188,324,000 as of December 31, 2012 and 2011, 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 0.25% and 0.14% at December 31, 2012 and 2011, respectively. Interest is payable monthly. On December 1, 2004, AARP made debt repayments of $25,000,000 on the unsecured variable notes.

(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, 2012 and 2011, the notes had an interest rate of 0.13% and 0.10%, 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.

Revolving Credit Facility

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 credit facility in 2012 or 2011. The credit facility expires on July 15, 2014.

Swap Agreements

AARP Inc. had 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 paid fixed annual rates of approximately 5.40% and received an amount based on the notional amount of each swap at an interest rate equal to LIBOR. The terms of the swaps provided for net receipt or payment on the first of each month. The swaps were reported at their fair value on the accompanying consolidated statements of financial position as accounts payable and accrued expenses. AARP allowed the swaps to expire in April 2011 and did not renew them.

The net interest accrual, which was the difference between the monthly fixed payment on the swap and the variable receipt from the swap counter-party, was 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 year ended December 31, 2011, AARP recognized a gain of $216,000 on the change in fair value of the swaps.

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 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, 2012 and 2011 was $100,518,000 and $84,842,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The Sinking Fund investments had net investment gains of $12,076,000 and $1,842,000 for the years ended December 31, 2012 and 2011, respectively.

8. INCOME TAXES

The significant components of the provision for income taxes were as follows for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Current:		
Federal income tax	$ 2,591	$ 2,908
State income tax	560	1,000
Current income tax expense	3,151	3,908
Deferred:		
Federal income tax	682	1,228
State income tax	248	672
Deferred income tax expense	930	1,900
Total income tax expense	$ 4,081	$ 5,808

The significant components of the net deferred tax asset, which was included in prepaid expenses and other assets at December 31, 2012 and 2011, were as follows (in thousands):

	2012	2011
Deferred income tax assets:		
Employee benefits	$ 3,633	$ 3,477
Accrued expenses	49	1,191
Deferred revenue	6,919	6,914
Depreciation	162	110
Total deferred income tax assets	10,763	11,692
Deferred income tax liability:		
Property tax expense	(17)	(16)
Total deferred income tax liability	(17)	(16)
Net deferred income tax asset	$ 10,746	$ 11,676

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2012 and 2011 totaled $1,074 and $6,580, 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.

Senior Community Service Employment Program (SCSEP)

The SCSEP 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 SCSEP program is primarily funded by the U.S. Department of Labor ("DOL") with grants totaling approximately $72,000,000 and $86,000,000 for the years ended December 31, 2012 and 2011, respectively. The current DOL commitment expires in June 2013.

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 $6,000,000 for each of the years ended December 31, 2012 and 2011, respectively. The current IRS commitment expires in September 2013.

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

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 2012 and 2011, employer contributions to the Plan were $30,000,000 in each year. AARP was required to make annual minimum contributions of $0 and $13,500,000 in 2012 and 2011, respectively. AARP plans to make a discretionary $30,000,000 contribution in 2013.

The components of net periodic pension benefit cost for the years ended December 31, 2012 and 2011 were as follows (in thousands):

	2012	2011
Service cost	$ 26,408	$ 22,564
Interest cost	32,516	28,503
Expected return on plan assets	(31,588)	(28,901)
Amortization of actuarial loss	18,227	14,582
Amortization of prior service cost	167	193
	$ 45,730	$ 36,941

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):

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (579,530)	$ (508,272)
Service cost	(26,408)	(22,564)
Interest cost	(32,516)	(28,503)
Actuarial loss	(150,114)	(32,880)
Benefits paid	14,617	12,689
Benefit obligation at end of year	(773,951)	(579,530)
Change in plan assets:		
Fair value at beginning of year	430,755	418,416
Actual return on plan assets	61,207	(4,972)
Contribution to the plan	30,000	30,000
Benefits paid	(14,617)	(12,689)
Fair value at end of year	507,345	430,755
Accrued pension liability	$ (266,606)	$ (148,775)

At December 31, 2012 and 2011, the accumulated benefit obligation was $666,334,000 and $518,716,000, respectively.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2012 and 2011 measurement dates were as follows:

	2012	2011
Discount rate	4.21 %	5.18 %
Future salary increases	4.00 %	4.00 %

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2012 and 2011 measurement dates were as follows:

	2012	2011
Discount rate	5.18 %	5.45 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Future salary increases	4.00 %	4.00 %

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

2013	$ 16,869
2014	18,857
2015	21,042
2016	23,421
2017	25,952
Years 2018 - 2022	173,004

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2012 and 2011 (in thousands):

	2012	2011
Net actuarial loss	$ 280,248	$ 177,981
Prior service cost	178	346
	$ 280,426	$ 178,327

Estimated amounts to be amortized into net periodic benefit cost in 2013 are $28,394,000 from actuarial loss and $66,000 from prior service cost.

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, 2012 and 2011:

	2012	2011
Asset categories:		
Equity securities	66 %	64 %
Debt securities	29 %	30 %
Alternatives	5 %	5 %
Cash equivalents	0 %	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 %

As of December 31, 2012 and 2011, the fair value measurement of AARP's pension plan assets by asset category within the fair value hierarchy was as follows (in thousands):

	2012	Level 1	Level 2
Cash & cash equivalents	$ 3,948	$ 3,948	$ -
Common stocks	116,212	116,212	-
Preferred stock	857	857	-
Institutional mutual funds:	-		
Real asset funds	24,713	-	24,713
Large cap fund	175,594	-	175,594
Mid cap fund	8,943	-	8,943
Emerging market equity fund	21,549	-	21,549
International equity fund	11,011	-	11,011
Fixed income sector funds:			
Asset-backed securities portfolio	3,188	-	3,188
Emerging markets portfolio	4,648	-	4,648
High yield portfolio	2,845	-	2,845
International portfolio	11,781	-	11,781
Investment grade corporate portfolio	22,601	-	22,601
Mortgage portfolio	45,582	-	45,582
Municipal sector portfolio	1,545	-	1,545
Various short term portfolios	10,004	-	10,004
Real return portfolio	20,502	-	20,502
US Government sector portfolio	21,822	-	21,822
	$ 507,345	$ 121,017	$ 386,328

	2011	Level 1	Level 2
Cash & cash equivalents	$ 5,111	$ 5,111	$ -
Common stocks	98,271	98,271	-
Preferred stock	371	371	-
Institutional mutual funds:	-		
Real asset funds	21,211	-	21,211
Large cap fund	153,554	-	153,554
Mid cap fund	7,686	-	7,686
Emerging market equity fund	14,368	-	14,368
Fixed income sector funds:			
Asset-backed securities portfolio	2,671	-	2,671
Emerging markets portfolio	3,930	-	3,930
High yield portfolio	2,320	-	2,320
International portfolio	10,923	-	10,923
Investment grade corporate portfolio	18,963	-	18,963
Mortgage portfolio	43,039	-	43,039
Municipal sector portfolio	1,345	-	1,345
Developing local market porfolio	895	-	895
Various short term portfolios	7,303	-	7,303
Real return portfolio	15,576	-	15,576
US Government sector portfolio	23,218	-	23,218
	$ 430,755	$ 103,753	$ 327,002

The fair values of the institutional mutual funds have been estimated using the net asset value per share of the investment. Information with respect to redemptions, strategies, risks and funding commitments for these investments as of December 31, 2012 and 2011 is as follows (in thousands):

	2012 Fair Value	Redemption Frequency	Redemption Notice Period
Real asset funds (a)	$ 24,713	daily	none
Fixed income sector funds (b)	144,518	daily	none
Large cap fund (c)	175,594	daily	none
Mid cap fund (d)	8,943	daily	none
Emerging market equity fund (e)	21,549	daily; semi-monthly	none or 2 days
International equity fund (f)	11,011	semi-monthly	2 days
Total	$ 386,328		

	2011 Fair Value	Redemption Frequency	Redemption Notice Period
Real asset funds (a)	$ 21,211	daily	none
Fixed income sector funds (b)	130,183	daily	none
Large cap fund (c)	153,554	daily	none
Mid cap fund (d)	7,686	daily	none
Emerging market equity fund (e)	14,368	daily	none
Total	$ 327,002		

(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, and finally 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 invested with one fund manager who employs different sector funds to obtain the highest performance possible. 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 two institutional mutual funds. One fund is actively managed and seeks to provide returns in excess of a well-established international market index. This fund allows daily redemptions and accounts for 81% of the investment class. The other fund is passively managed. Its benchmark is the same as the active fund. Redemptions are allowed semi-monthly.

(f) This category is invested in one passive fund. The fund allows semi-monthly redemptions and purchases. The fund seeks to replicate the performance of a global, developed market index.

The Plan did not have any unfunded commitments related to the above investments as of December 31, 2012 and 2011. The Plan did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2012 and 2011.

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 components of net periodic postretirement health benefit cost for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Service cost	$ 2,834	$ 2,321
Interest cost	4,176	3,922
Amortization of actuarial gain	(370)	(968)
Amortization of prior service credit	(702)	(702)
	$ 5,938	$ 4,573

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):

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (80,516)	$ (73,353)
Service cost	(2,834)	(2,321)
Interest cost	(4,176)	(3,922)
Actuarial gain (loss)	2,011	(3,006)
Participant contributions	(423)	(366)
Benefits paid, net subsidy	2,491	2,452
Benefit obligation at end of year	(83,447)	(80,516)
Change in plan assets:		
Fair value at beginning of year	-	-
Employer contribution	2,312	2,378
Plan participants' contributions	424	366
Benefits paid	(2,736)	(2,744)
Fair value at end of year	-	-
Accrued postretirement health benefits	$ (83,447)	$ (80,516)

As of December 31, 2012 and 2011, the weighted average discount rates used in the actuarial valuation were as follows:

End of year benefit obligation	4.24 %	5.14 %
Net periodic benefit cost	5.14 %	5.45 %

For measurement purposes, the health care cost trend rate was 8% for 2012 and 2011 (the rate is assumed to decrease gradually to 5% in 2017 and remain level thereafter).

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

2013	$ 3,559
2014	3,948
2015	4,275
2016	4,588
2017	5,017
Years 2018 - 2022	27,066

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2012 and 2011 (in thousands):

	2012	2011
Net actuarial gain	$ (13,875)	$ (12,234)
Prior service credit	(4,285)	(4,988)
	$ (18,160)	$ (17,222)

Estimated amounts to be amortized into net periodic benefit cost in 2013 are $405,000 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. A 1% change in the assumed healthcare cost trend rate at December 31, 2012 would have resulted in an $13,871,000 increase or a $11,230,000 decrease in the accumulated postretirement benefit obligation, and a $1,539,000 increase or a $1,194,000 decrease in the 2012 aggregate service and interest cost.

A 1% change in the assumed healthcare cost trend rate at December 31, 2011 would have resulted in an $14,025,000 increase or a $11,239,000 decrease in the accumulated postretirement benefit obligation, and a $1,251,000 increase or a $987,000 decrease in the 2011 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, 2012 and 2011, expenses for the AARP Welfare Plan for current health care benefits were $19,880,000 and $19,387,000, respectively. As of December 31, 2012 and 2011, AARP had a liability related to these benefits of $3,373,000 and $3,416,000, respectively, which was included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

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. To participate in the 401(k) Plan, an employee must be at least 18 years of age and have been employed for a minimum of one month of continuous service.

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. For the years ended December 31, 2012 and 2011, AARP employer contributions to this plan totaled $9,322,000 and $8,775,000, respectively.

14. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated unrestricted net assets at December 31, 2012 and 2011 were available to fund the following (in thousands):

	2012	2011
Debt retirement sinking fund	$ 100,518	$ 84,842
Investment earnings reserve	456,237	318,740
Foundation quasi-endowment	16,154	14,790
Foundation board designated operating reserve	22,419	23,445
LCE quasi-endowments	3,412	3,075
Board designated net assets	$ 598,740	$ 444,892

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts restricted for use for specific program purposes and/or assets available for future periods.

16. COMMITMENTS AND CONTINGENCIES

Lease Commitments

AARP leases offices, information centers, and warehouse facilities in 96 locations in the U.S. and its territories under operating leases with various lease terms. Total rent expense incurred under operating leases was $21,775,000 and $20,142,000 in 2012 and 2011, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2012 are (in thousands):

2013	$	18,882
2014		14,178
2015		12,165
2016		9,048
2017		7,606
Years 2018 - 2022		26,472
Total	$	88,351

Contingencies

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, changes in net assets and cash flow of the Foundation or LCE.

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. The amount of loss from these lawsuits could not be estimated as of December 31, 2012.

17. SUBSEQUENT EVENTS

AARP evaluated its December 31, 2012 consolidated financial statements for subsequent events through March 22, 2013, the date the consolidated financial statements were issued. AARP is not aware of any material subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.