

Economic Contributions of Fraternal Benefit Societies: A Five Year Perspective

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Executive Summary

For more than one hundred years, lodge-based fraternal benefit societies have enriched the lives of millions of people across the United States while making immense contributions to the U.S. economy and society. Since the mid-19th century, individuals have joined others with a common bond to establish a local lodge and pool resources to provide insurance protection to their membership.

Modern fraternal benefit societies have evolved into member-owned, not-for-profit mutual aid organizations structured under state and federal law that (1) have a fraternal purpose, (2) operate under a lodge system, and (3) insure members and their families against death, disease, disability. The charitable and social activities of the more than nine million fraternal members organized in local lodges across the United States today are made possible by the resources generated through providing insurance products to fraternal members, as required under Section 501(c)(8) of the Internal Revenue Code and various state laws. These resources support a vast network of ready member volunteers and ample opportunities to help others and give back to their communities.

This study measures these benefits to society from the charitable and voluntary activities of fraternal benefit societies using a rigorous economic framework originally developed in a September 2010 Georgetown University McDonough School of Business study authored by Phillip Swagel, currently a Professor at the University of Maryland School of Public Policy. Dr. Swagel previously served at the White House Council of Economic Advisers in the administrations of presidents George W. Bush and Bill Clinton, and was a senior official at the U.S. Treasury Department under President George W. Bush from 2006 to 2009.

From 2007 to 2011, even during a severe recession, fraternal benefit societies produced more than \$3.8 billion in benefits on average to the U.S. economy each year, for a total of nearly \$19 billion over the five-year period. In direct contributions alone, fraternal benefit societies together produced \$2.4 billion in charitable and community assistance from 2007 to 2011, an average of \$478.3 million per year. Members of fraternal lodges also volunteered nearly 400 million hours of their time during the five-year period considered in this study, with a direct on average value of \$1.6 billion in each year.

In addition to direct economic contributions of time and money, this study demonstrates how fraternal benefit societies generate enormous indirect economic benefits by creating social capital, which encompasses the bonds between individuals that deepen reciprocity and trustworthiness within a community. The creation of social capital generates quantifiable economic and societal benefits. When members of fraternal benefit societies gather together to help others, volunteer to improve the lives of children and families, or carry out any of their myriad other activities, they bring communities together to deepen societal interconnections and generate social capital that benefits both individuals and communities as a whole. The efforts of members of local fraternal lodges improve people's lives today and into the future.

During the five years studied, fraternal benefit societies generated social capital valued at an average of \$1.7 billion annually, or \$8.6 billion total. These enormous contributions vastly outweigh the

estimated foregone \$50 million annual cost of the federal tax exemption that makes the fraternal model possible, producing a 76-to-1 return on the public investment.

The support of the tax code gives rise to immense benefits to society, thanks to the efforts of the members of fraternal benefit societies.

Moreover, these benefits are above and beyond the positive impact fraternal insurance protection has on the individuals that purchase it. In addition to providing financial security and a safety net for millions of fraternal members and their families, research shows that individuals with a sense of financial security are significantly more willing and able to participate in service activities and help others in their communities. The fraternal model embodies this concept: fraternal help their members achieve financial security while the network of local lodges offers the opportunity for fraternal members to give back their time, talents and resources to help others in their local communities and beyond.

Without the current tax rules in place that govern fraternal benefit societies, the \$19 billion in total benefits that this study finds that fraternal provide society over five years would be at risk. These benefits are impossible to replicate by corporations or government agencies, because they arise out of the public-spirited acts of fraternal members coming together for the common good. Indeed, changes to the tax code that put the fraternal system at risk would add great pressures to already stretched local, state and federal government budgets or leave more needs in communities unmet. Considering the extraordinary return on the public investment in their model, fraternal benefit societies represent a tax policy solution with an enormously positive ratio of benefits to costs.

Full Study:

http://blogs.rhsmith.umd.edu/financialpolicy/files/2014/07/Economic_Contributions_of_Fraternal_Benefit-Societies.pdf