

Fraternal Benefit Societies – Frequently Asked Questions

1. **Q: What is a fraternal benefit society?**

A:

A fraternal benefit society is a form of body corporate, generally defined in most state statutes as:

"A body corporate, without share capital, operating for the benefit of its members and not for profit, with a representative form of government including a lodge system, and that is incorporated for fraternal, benevolent, or religious purposes, including the provision of insurance or annuity benefits to its members, their spouses, children or beneficiaries".

2. **Q: What does this definition mean – and how does it apply to Foresters™?**

A:

- a. **Without share capital**, Foresters has no shareholders. It is run solely for the benefit of its members.
- b. **Not for profit** - As a fraternal, Foresters operates on a not for profit basis which means that any "profits" from its insurance business go to fulfill its mission, and for its members, in the form of dividends and special non-insurance benefits such as member benefits. It is a tax-exempt organization under state and federal law.
- c. **Representative form of government** – the Board of a fraternal benefit society, such as Foresters, is directly elected by its members. No proxies are allowed.
- d. **'A lodge system'** – members of a fraternal must be organized into lodges or branches.
- e. **Incorporated for fraternal, benevolent or religious purposes** – A fraternal exists to fulfill a mission or purpose. This is known as a Common Bond.
- f. **Insurance and annuity benefits to its members and their families** – Fraternal benefit societies provide these as part of its mission or purpose.

3. **Q: How do you join a fraternal benefit society?**

A:

A person joins a fraternal by becoming a member, which in Foresters case means sharing a commitment to Foresters Common Bond, and completing an application for membership or acquiring a certificate issued by Foresters.

4. **Q: What is a 'common bond'?**

A:

A common bond is the reason a fraternal benefit society exists. It is its purpose or mission.

5. **Q: Where do I find Foresters 'common bond'?**

A:

Foresters Common Bond is found in s. 1 of its Constitution – www.foresters.com under About Us.

6. **Q: Does state law regulate fraternal?**

A:

Yes. Fraternal have their own section of the state insurance codes, known as the fraternal code. Not every section of the insurance code applies to fraternal, but most states incorporate the key provisions of state law, such as the consumer protection, agent licensing, unfair trade practices, privacy, anti-money laundering provisions, etc. so that they apply to fraternal.

7. **Q: How do I find the fraternal code for my state?**

A:

We have loaded a list from the ACLI on this website, which gives each fraternal code citation.

8. **Q: What are the key differences between a fraternal and a commercial life insurance company?**

A:

The key differences are as follows:

a. Open Contract

The insurance contracts issued by fraternal benefit societies are called 'certificates'. This is because a fraternal benefit society contract is an 'open contract'. The Constitution of the fraternal is part of the contract with the member. The certificate represents both insurance and membership aspects of the relationship the member has with the fraternal. The open contract means that amendments to the Constitution can change aspects of the membership relationship. However, the Constitution can never change any of the insurance benefits promised in the insurance certificate.

b. Maintenance of Reserves

Fraternal benefit societies are responsible for their own solvency and reserves. They are not members of the state guarantee funds. This means they cannot be assessed to pay for the insolvency of other carriers. However, this does mean that in the event they themselves become insolvent (e.g. that the reserves for a class of certificate become impaired) the Board of Directors may decide to assess the membership to restore the deficiency.

The assessment is done either by reducing benefits, or by requiring payment of an equitable proportion of the deficiency.

State law usually prohibits using membership in a guarantee fund as a point of sale issue.

c. Tax Exempt Status

In the U.S., fraternal benefit societies are tax-exempt organizations under the Internal Revenue Code s 501(c)(8). In order to maintain their tax-exempt status, a fraternal benefit society must (1) operate under a 'lodge' system and (2) provide for the payment of life, sickness, accident, or other benefits to the members of the society or to their dependents.

Foresters US branch is a 501 (c)(8) tax-exempt organization.

d. Solvency of Fraternal

Fraternal are regulated for solvency, as are other insurers, through their state of domicile. Foresters state of entry is New York, one of the most respected state regulators. Foresters, as a Canadian fraternal, is also regulated by the Canadian federal regulator, OSFI. Its Canadian solvency ratio is very strong and at approximately 400% MCCR.

Foresters also has a strong US solvency ratio. . Its Risk Based Capital Ratio for its US branch is 404%.

9. Q: Has Foresters ever used its Maintenance of Reserves Clause?

A:

Yes, once in 1917 during the WW1, when there were a lot of death claims, and laws pertaining to fraternal regulation and actuarial standards were being changed.

The assessment clause does not automatically mean that a member loses money. Usually it is invoked temporarily until the reserves can be repaired. Our national trade association, the National Fraternal Congress of America, does not report any situation where members of a fraternal lost any money.

10a) Q: Has any fraternal used its maintenance of reserves clause recently?

A:

Yes. A few very small fraternal have invoked this clause in the last ten years. One each in Illinois, Wisconsin and New York.

10b) Q: What has happened to their members contracted insurance or annuity benefits?

A:

In each case, the fraternal involved moved to merge with another fraternal. No certificate holder lost any money. The merger partner agreed to provide the full contract benefits.

11. Q: What should my members know about a Fraternal?

A:

Its common bond – We give this to you in the Foresters Story. It is in the Constitution, s. 1. The maintenance of solvency provision is found in the member's insurance certificate. At delivery when you review the contract with the member, this provision should be reviewed. See your Agent's market Conduct handbook.

12. Q: What else is unique about a fraternal?

A:

Governance Rights make Fraternal Benefit Societies unique:

- Members of a fraternal benefit society can participate in the governance of their society by becoming involved at the branch level. They can hold office and elect their officers. They also have the right to elect the board of directors through the 'representative form of government'.

13. Q: What is Foresters form of governance?

A:

- a. Foresters has a three tier form of government: Branches, Regional Assemblies and International Assembly.
- b. All members are members of a branch. This information is provided with the certificate documents.
- c. Members exercise their governance rights by attending branch meetings.
- d. Members can find this information on their branch website at www.foresters.com about meeting times and events.
- e. Every 4 years, the branch members elect delegates to the Regional Assemblies.
- f. The Regional Assemblies elect representatives to attend the International Assembly every four years.
- g. The representatives at the International Assembly elect the Board of Directors, which is responsible for the business and fraternal affairs of Foresters between International Assemblies.

14 Q: How do My Members find out about branch activities?

A:

Foresters members are encouraged to register once they have their certificate. Please direct them to www.foresters.com.

15: Q: How does Foresters discharge its common bond?

A:

Foresters discharges its common bond through:

- a. providing quality life insurance products.
- b. providing member benefits.
- c. providing social events.
- d. providing volunteer opportunities so members can contribute to their communities.
- e. supporting charities which benefit family and children's health such as CMN, and its radiothons.
- f. providing its members with personal development opportunities through branch leadership positions.