

.....CPS BULLETIN.....

The Newsletter of CPS Actuaries and Computer Programming & Systems, Inc.

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Introduction

This issue of the **CPS Bulletin** is devoted entirely to the results of our survey of fraternal benefit societies. Beginning in September we set out to try and see what benefits were being offered by fraternal, what types of products were being issued and also to gather financial data to find trends in the fraternal industry. We would like to thank all the societies that provided responses to our written request for information.

We expect to update the survey in future years so that the trends can be monitored more closely and also to explore other items not included in this survey. We also would be happy to listen to any information you may feel would be useful to include in a future survey.

Of particular importance to us in this survey was to see how the size of the society impacts the types of benefits and products offered by fraternal. While some of the results pointed out the obvious (e.g., larger societies offer a wider variety of products), there were other results that were not as obvious and we have highlighted them in our report.

The report contained herein is only a summary of the results. The complete report is available upon request. You can either write or call us and request the report, or you can contact us through our web site at cpsincorp.com.

We at CPS would like to wish everyone a joyous and healthy new year.❖

Results of the CPS Fraternal Survey

The highlights of the results of the CPS Fraternal Survey are described herein. Before discussing the results, we first describe the objectives of the survey. We then indicate how we collected the data and how we grouped the fraternal by size.

OBJECTIVES OF THE SURVEY

We set out to answer primarily the following questions:

- What benefits and insurance plans are being offered by fraternal and are these benefits and plans dependent upon the size of the society?
- If one is an officer of a fraternal benefit society of a given size, should one consider any changes to make its benefits and plans more complete or competitive?
- Is the financial situation of fraternal benefit societies improving significantly, deteriorating markedly or is it more or less unchanged?

METHODOLOGY

We identified the fraternal benefit societies that were to be included in our survey from the 1999 and 2000 NFCA publication of Statistics of Fraternal Benefit Societies. To this group we added other fraternal, which are not members of the NFCA, but are known to us.

We then proceeded to exclude several societies, principally those which are wholly Canadian or had merged into another society or for whom we had insufficient data. In total, our survey included the results of 85 fraternal benefit societies ("FBSs").

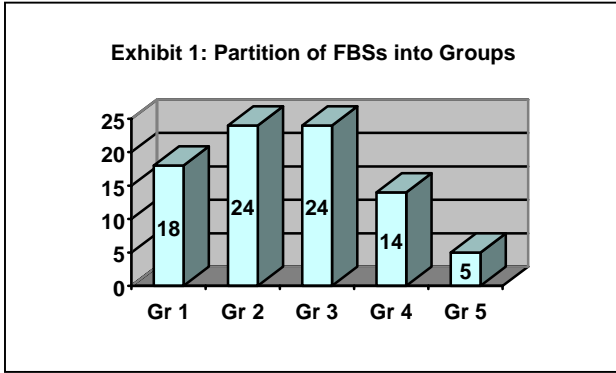
Our analysis breaks down the results by the size of the society. We felt, as mentioned above, that FBSs would be interested in comparing themselves benefit and insurance-wise to societies of similar size. We have

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chosen to use net (admitted) assets as a proxy for size because alternatives are either more volatile (such as premium income) or are asset derivatives (such as surplus). We partitioned the societies into five groups. The following graph shows the five groups we settled upon in our analysis and each bar has on it the number of societies in that group.



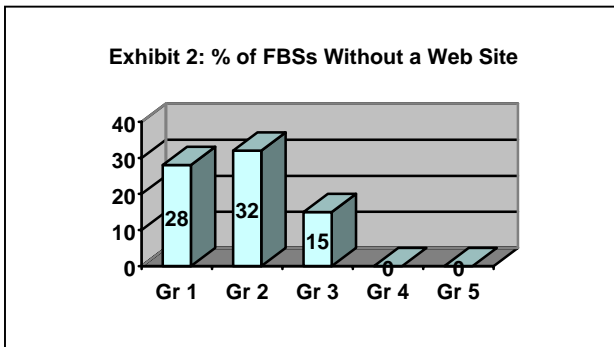
These groupings were chosen because of differences in fraternal benefits or insurance plans as well as for statistical reasons. The groups were partitioned as follows:

Group	Admitted Assets
1	Less than \$10 million
2	\$10 - \$40 million
3	\$40 - \$150 million
4	\$150 - \$1,000 million
5	More than \$1 billion

The first two groups contain 42 FBSs, which is half the total number of FBSs in our survey.

We collected information from society web sites (where available) as well as from the NFCA publications. We found that of the societies included in our survey, only 21% did not have a web site as of October 2001.

Exhibit 2 shows the proportion of FBSs in each group that **do not** have a web site. As expected, the larger the society, the more likely they are to have a web site.



SCOPE OF THE SURVEY

In addition to examining the benefits and insurance plans offered, we felt that certain financial statistics about FBSs would be useful. The statistics reviewed as part of this study were the following:

- Amount of surplus
- Solvency ratio (ratio: assets to liabilities)
- Proportion of FBSs with gains from operations
- Percentage of societies distributing dividends
- Dividends as a percentage of gains from operations
- Total life insurance and annuities in force
- Societies who increased their total inforce
- Average face amount of policies in force
- Membership increases for life and annuities

These data items were derived from annual statement data with no adjustments.

The benefits and insurance plans that we felt are likely to be of greatest interest to officers of FBSs are shown in the following tables:

Benefits Surveyed

Scholarships	Accelerated death benefit
Infant benefits	Nursing home benefit
Orphans benefits	Disability benefit
Mortgages	Prescription card benefit
Medical alert bracelet	Specialized benefits

Insurance Plans Surveyed

Traditional life	Joint life
Universal life	Medigap
Guaranteed issue	Long term care
Annuities	Final expense
Term insurance	Pre need

We found that many FBSs offer specialized benefits that support their particular activities. These include:

- Camps and youth leadership programs
- Child identification kits
- Hearing aid purchase assistance
- Subsidy for child car seats
- Subsidy for cancer screening
- Wheelchair rental and convalescent equipment loan
- Discounts on travel activities such as car rental, hotels, auto insurance

- Credit union
- Free dancing lessons
- Free language and cultural classes
- Classes in English as a second language
- Free financial and insurance seminars
- Free accidental death benefit insurance
- Dental and vision discount card
- Discounts with certain moving companies
- Grants on the birth of a child
- Gifts upon graduation from high school
- Assistance with completing college applications
- Mature driving courses
- Nutrition programs
- Support for sports

Asset Values

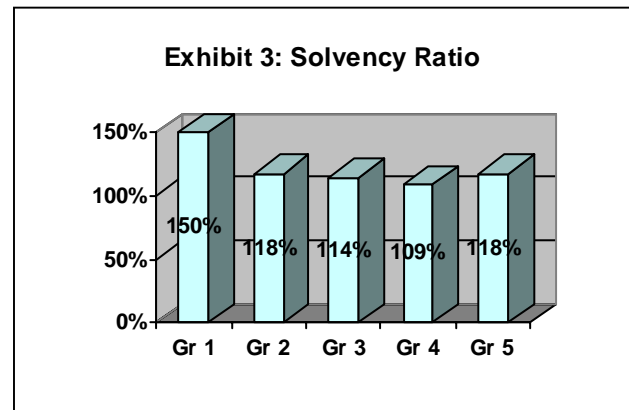
The December 31, 2000 assets of the FBSs surveyed total \$67 billion with an average (median) asset value per society of \$42 million (i.e., half the FBSs have more than this amount and half have less). In this report, we used the median for the average value rather than the mean. The median is statistically more appropriate for data involving wealth because the mean may be distorted by a few very large societies (in this survey, by the 5 FBSs included in Group 5). In fact, once the two Lutheran societies merge, they will account for nearly 60% of all fraternal assets. To show how results can be distorted, the mean asset value of the 85 FBSs as of December 31, 2000 was \$786 million, whereas the median was \$42 million.

Surplus

The total surplus of the surveyed FBSs as of December 31, 2000 was \$7.31 billion compared with \$7.08 billion as of the prior year, an increase of \$230 million (or 3.3%). This is not as good news as may appear at first glance. Firstly, surplus merely increased from 10.8% of assets in 1999 to 10.9% in 2000. Secondly, the increase in the surplus of the group 5 societies was \$233 million; thus, all the other FBSs combined just about broke even.

Solvency Ratio

The average solvency ratio (i.e., the ratio of admitted assets to total liabilities) as of December 31, 2000 was 117.5%. The solvency ratio by size of society is shown in Exhibit 3.



It can be seen that apart from group 5, the solvency ratio reduces as the society size increases. This is not surprising, because in general, the smaller the FBS the larger the surplus margin it should have.

If we compare the 1999 solvency ratios with the 2000 solvency ratios, we find that only 16 of the surveyed FBSs had a solvency ratio that changed by more than 2% (i.e., the ratio of the 2000 to 1999 solvency ratios was greater than 1.02 or smaller than 0.98). Out of these 16, the solvency ratio improved in 6 cases and deteriorated in 11 cases.

Gains from Operations

Of the surveyed FBSs, 62 (or just over two-thirds) showed a gain from operations. The total gain from operations before dividends was \$1.20 billion. Of this amount, about \$1.13 billion (or 94%) was achieved by the group 5 FBSs. After the payment of dividends, the total gain for all fraternal was \$328 million.

Total In Force

Life insurance issued in 2000 was about 9% of existing life insurance. This was pretty consistent across all groups except group 1, which had an increase of only about half that rate. Of the FBSs surveyed, there were 29 (just over 25%) that failed to increase their life insurance in force in 2000.

Overall, across all FBSs surveyed, the life Insurance sums insured as of December 31, 2000 increased by only 3% over life insurance sums insured as of December 31, 1999.

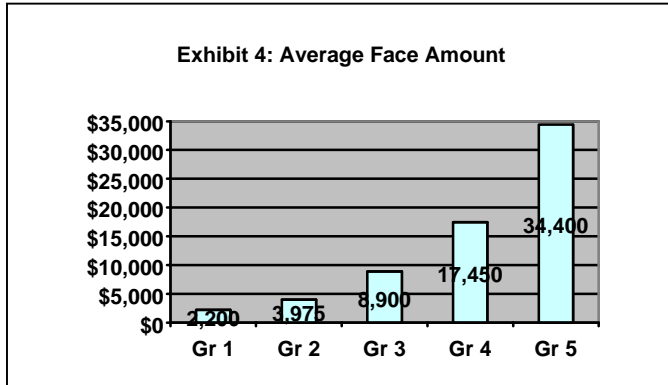
Average Policy Size

The mean policy size for the FBSs surveyed was \$25,400 as of December 31, 2000, an increase over the result in 1999 by 3%. The median policy size was

\$5,400, an increase of 1.7% over the prior year.

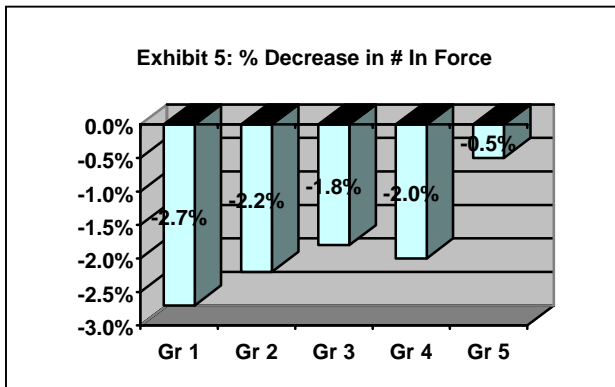
The median policy size for the group 5 FBSs was \$34,400, which is more than 6 times larger than the median policy size for all of the FBSs surveyed.

In Exhibit 4, we show the average policy size in each of the five groups. The average policy size is one of the most significant differences between the groups.



Changes in Membership

The overall number of life policies declined by 1.1% in 2000. When we count life and annuity policies combined, the decline was 3.0%. The decline was greatest among the group 1 FBSs. It should also be noted that even the group 5 FBSs experienced a decline in membership. Exhibit 5 shows the percentage decreases in the number of policies in force.



FRATERNAL BENEFITS

Scholarships

This is one of the core benefits of fraternal. Scholarships were provided by almost all (94%) of the FBSs included in our survey. The amounts provided vary widely, ranging from one-time amounts of \$250 to scholarships of \$15,000 each year. Scholarships were not always limited to just students in college – some FBSs provided scholarships to graduate school, private high schools, grade schools and seminaries.

Infant Benefits

About half (51%) of the FBSs provide a lump sum payment to the member upon the death of a member's child. The payment amount varied, but on average, it amounted to \$2,200.

In general, the larger the society, the more likely it is to offer this benefit. Only 3 of the 19 FBSs in group 1 provide an infant benefit, whereas 16 of the 19 societies in groups 4 and 5 offer such a benefit.

Orphans Benefits

About half (52%) of the FBSs offer monthly support to children who have lost both parents. In most cases, for the benefit to be payable, both parents had to be members. As with infant benefits, the larger the society, the more likely it is that this benefit would be offered.

For the FBSs where we had a dollar figure showing the amount of the benefit, the minimum monthly payment was \$50 and the maximum was \$375. The average monthly payment to each such orphan among these societies was \$150.

Mortgages

About one-third (35%) of the FBSs will provide mortgages to their members. We found that among the societies offering this benefit, the maximum amount that would be loaned varied from \$100,000 all the way up to \$300,000 for one society. The average was \$175,000.

Offering mortgages to the membership does not appear to be related to the size of the FBS. About half of the group 2 FBSs offer the benefit, but only about 20% of the group 3 FBSs offer it.

Medical Alert Bracelet

Overall, this benefit was available from only 13 of FBSs surveyed. One society asked the members to contribute towards its cost, while the others offered it as a free benefit. This benefit was more likely to be provided by the larger FBSs.

Accelerated Death / Dread Disease Benefit

Less than one-fifth (19%) of the FBSs offered such a benefit. The larger the society, the more likely it was to provide this benefit (ranging from 3% of the societies in group 1 to 37% of those in groups 4 and 5).

The average additional benefit offered on diagnosis of a specified dread disease ranged from \$1,500 to \$2,500.

Nursing Home Benefit

The information gathered shows that five FBSs owned or operated a nursing home facility and one other was affiliated and received preferential treatment at a nursing home.

Prescription Drug Card Benefit

Eight societies out of the 85 FBSs surveyed indicated that they offer members a prescription card.

INSURANCE PLANS

Traditional Life

As one would expect, almost every FBS in our survey (about 95%) offers traditional life insurance plans (such as whole life, life paid-up at 65, 20 year endowment etc.). Some of the FBSs that indicated that they do not offer this benefit provided whole life insurance but in the form of a guaranteed issue policy (which we have separated from traditional life insurance).

Universal Life

Universal Life (UL) plans are offered by over one-third of the FBSs (38%). Because of the higher cost of administering these plans and also because of their more sophisticated nature, the plans show a distinct bias towards larger societies. None of the societies in group 1 offered UL plans and only 21% of the group 2 FBSs offered it. However, 60% of the FBSs in groups 3, 4 and 5 have UL plans.

Guaranteed Issue

Also known as graded benefit plans, one out of five of the FBSs offer this type of coverage. It is more likely to be offered by the larger societies. In fact, none of the group 1 FBSs offers graded benefit plans. Once we pass group 1, guaranteed issue plans are marginally more popular with the medium-sized societies than the really larger ones.

Annuities

Annuities have increased in popularity in the past decade. In our survey, 80% of FBSs offer some type of annuity plan. Annuities have become for some societies a core benefit. The popularity of annuity plans can be attributed to the fact that in recent years, insurance has changed from basically a means of providing protection

to being used as a financial planning tool. Annuity plans may be used as a base for retirement plans and deferred annuity plans are significantly more tax efficient than endowment insurance and permanent life insurance.

None of the societies in group 1 have annuity plans. If one were to speculate, one might conjecture that the societies in group 1 are older societies, more narrowly focused and on a particular mission and therefore are more traditional in their approach. In the other groups, annuity plans are offered by virtually 100% of all the FBSs surveyed.

Term Insurance

Term plans are offered by half of the FBSs in group 1 and by virtually all others. Overall, 85% of FBSs have some form of term insurance.

Joint Life

Joint life and/or last survivor plans are an integral part of financial planning. It is therefore not surprising that we see an increase in popularity as we move from the smaller to the larger sized FBSs. Overall 15% of FBSs told us they offer such plans, ranging from 5% in groups 1 and 2 to 16% in group 3, 29% in group 4 and 40% in group 5.

Medigap and Long Term Care (LTC)

We found that LTC is offered by far more FBSs than Medigap (30% to 10%). Not unexpectedly, these plans are more popular with larger FBSs than with smaller ones. Of those offering LTC coverage, most have an arrangement with a third-party provider to offer such coverage.

Medigap is being offered by 5% of the FBSs in groups 1-3 combined, increasing to 20% in groups 4 and 5 combined. The number of positive responses is, however, so small that one could not draw any firm conclusions from these results.

Final Expense

Of those FBSs that indicated that they offered final expense insurance, all were in either group 2 or group 3. Thus, this plan is not issued by the very small FBSs or the very large ones.

Pre Need

This benefit was part of the portfolio of only 6 FBSs, which is equivalent to 7% of the 85 FBSs surveyed. It is far too small a number to enable us to draw firm

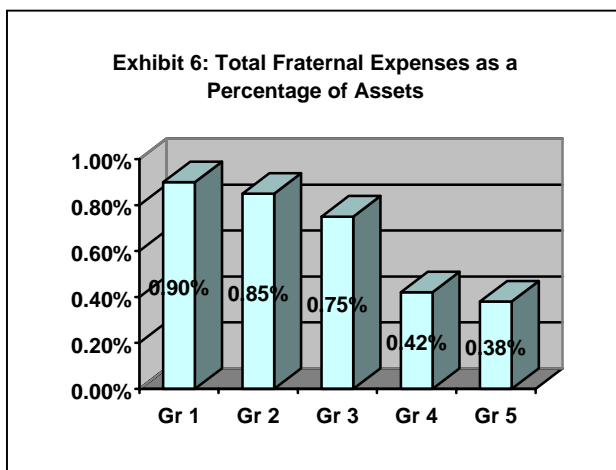
conclusions. Pre need appears to have a similar pattern to final expense (i.e. provided by medium-size FBSs rather than the very large or small).

FINANCING FRATERNAL ACTIVITIES

While it is not possible to quantify all the wonderful volunteer work done by FBSs, some indication might be sought in the money given to various charitable activities. We extracted this information from the 1999 NFCA publication Statistics of Fraternal Benefit Societies, which is the last year that this information was published.

Because of the variations in the information provided by lodges of various societies, we focused on reported home office expenditure for fraternal activities. Total fraternal expenditure in 1999 for our 85 FBSs was \$311 million, of which the two Lutheran societies were responsible for \$180 million (58% of all fraternal expenditures). The median amount of fraternal expenses among the FBSs surveyed was \$400,500.

The above figures conceal a very wide range of fraternal support, which ranges from zero for some societies all the way up to 18% of assets for one society. The median fraternal expenditures as a percentage of assets was 0.67%. For scholarship expenditures, the range is from zero to 2.4% of assets, with a median of 0.05%. The following chart shows the total fraternal expenditures (including scholarships) as a percentage of assets.



FINAL SUMMARY

The results contained in this issue of **CPS Bulletin** are just the highlights of our survey. The complete report provides additional explanations and charts of the results. It also provides a more detailed breakdown of the results within each group as well as further descriptions about the types of benefits offered by fraternal. The complete report is available upon request.

We anticipate that we will update this survey annually in order to provide up-to-date information each year. We also feel that by updating the data annually, we will be able to track trends in the fraternal industry. This information will hopefully benefit fraternal of all sizes. We are open to suggestions as to how we can improve the value of the survey and would be happy to discuss any ideas you may have.

Interest Rate Monitor

The following are some key interest rate benchmarks:

Benchmark	Current	3 Months Ago	1 Year Ago
Fed Funds	1.94%	2.75%	6.38%
Prime Rate	4.75%	6.00%	9.50%
30 yr mortg	6.74%	6.23%	6.84%

Source: www.bloomberg.com as of Dec. 26, 2001.

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 33 years of service to our clients. We offer a wide range of computer and actuarial services.

There are two major divisions that make up CPS. One is an actuarial consulting firm that specializes in the needs of fraternal benefit societies. The other is a computer-consulting firm that primarily manages computer networks as an outside consultant for a variety of companies, and develops, hosts and maintains e-mail and web sites. For further information regarding our services, please call us at **203-324-9203**, or visit our web site at www.cpsincorp.com. ❖

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