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House Bill 575 Proponent Testimony of Todd Martin
House Insurance Committee
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Chairman Brinkman, Vice-Chair Lampton, and Ranking Member Miranda, thank you for the opportunity to testify as a proponent for House Bill 575. My name is Todd Martin and I serve as the outside General Counsel to the American Fraternal Alliance. In addition, I have worked with more than 40 fraternal benefit societies as part of my legal practice at Stinson, LLP.

The American Fraternal Alliance is a national trade association representing more than 50 fraternal benefit societies (fraternals) operating in the US and Canada. Fraternals are not-for-profit 501(c)(8) membership organizations that provide their members a variety of financial services products, primarily life insurance and annuities, and facilitate member participation in volunteer projects and programs.

To be exempt under Internal Revenue Code (IRC) section 501(c)(8), a fraternal beneficiary society must meet the following requirements:

- 1) It must have a fraternal purpose. An organization has a fraternal purpose if membership is based on a common tie or the pursuit of a common object. The organization must also have a substantial program of fraternal activities.
- 2) It must operate under the lodge system or for the exclusive benefit of the members of a fraternal organization itself operating under the lodge system. Operating under the lodge system requires: (i) a parent organization; and (ii) subordinate bodies (called a lodge, branch, chapter or the like) chartered by the parent and largely self-governing.
- 3) It must provide for the payment of life, sick, accident, or other benefits to the members of the society or their dependents.

Fraternals are committed to enriching American communities through hands-on service and financial support. In 2020, over 7 million members devoted more than 38 million service hours and gave more than \$467 million to community organizations in the United States.

There are 43 fraternal benefit societies with a presence in Ohio, including seven fraternal benefit societies domiciled in the state: the Alliance of Transylvania Saxons, American Mutual Life Association, Catholic Ladies of Columbia, FCSLA Life, First Catholic Slovak Union of the United States and Canada, United Commercial Travelers, and United Transportation Union Insurance Association. In Ohio, over 390,000 members volunteered 1.5 million hours for community events, providing an estimated value of approximately \$45 million in volunteer hours in 2020. During this same year, as the pandemic continued, fraternals and their members contributed nearly \$15 million to communities large and small throughout Ohio.

HB 575 is a critically important measure that would enhance consumer protection for individuals who purchase life insurance and annuities from fraternal. The bill provides tools for fraternal leaders and regulators for early resolution of financial impairment. It streamlines the process for troubled societies to merge with a financially stable fraternal or transfer policies to a commercial insurer. And, should a merger or policy transfer prove impracticable, the bill provides tools to help resolve issues and minimize costs to members in the event of receivership and liquidation.

It is important to note that HB 575 is not supported by the Fraternal Alliance because of an issue with one or more fraternal domiciled or doing business in the state. In fact, Ohio has a healthy and vibrant fraternal community thanks in large part to the quality of the fraternal operating in the state and the prudent oversight of the Ohio Department of Insurance.

The Fraternal Alliance has worked with regulators and supported similar legislation in other states with a significant number of domestic fraternal. The consumer protections from these legislative efforts are in place in those states.

Thank you again for the opportunity to testify about this bill. I urge the committee to support HB 575 and would be happy to answer any questions. Your consideration is appreciated.