

**SUBJECT:** Model code revisions for fraternal benefit societies

**COMMITTEE:** Insurance — committee substitute recommended

**VOTE:** 9 ayes — Smithee, Eiland, Burnam, G. Lewis, J. Moreno, Olivo, Seaman, Thompson, Wise  
0 nays

**WITNESSES:** For — J. Michael Belz, Catholic Life Insurance; David Brummond, National Fraternal Congress of America; Leroy P. Muehlstein, Grand Lodge/Sons of Hermann  
Against — None  
On — Rhonda Myron, Texas Department of Insurance

**BACKGROUND:** Insurance Code, chapter 10 governs fraternal benefit societies that offer insurance benefits to their members. Fraternal benefit societies are nonprofit entities organized and carried on solely for the mutual benefit of their members and their beneficiaries. A fraternal benefit society must have a lodge system and a representative form of government, though it may limit its membership to a secret fraternity. A lodge system means a supreme governing or legislative body with subordinate branches who hold regular meetings and conform to the uniform rules of the society.  
  
Chapter 10 is based on the model code for fraternal benefit societies originally promulgated by the National Fraternal Congress of America (NFCA) in 1892. The last major update to the law in Texas was in 1951. The 70th Legislature in 1987 made minor changes to the law. The NFCA’s most recent revision of the model code was in 1983.

**DIGEST:** CSHB 1089 would adopt the NFCA’s 1983 revisions to the model code.  
  
**Society structure and definitions.** The bill would update the definition of “representative form of government” and would add definitions for “benefit contract,” “benefit member,” “certificate,” “laws,” “lodge,” “premiums,” and

“rules.” It would change references to the board of insurance to the department of insurance.

The bill would allow a fraternal benefit society to use an assembly or a board as its supreme governing body and would prescribe the structure of each system. In addition to the existing types of societies, the bill would authorize the formation of societies for fraternal or patriotic purposes. These purposes could be carried out directly by the society or through subsidiary corporations or affiliated organizations.

**Benefit policies and requirements.** CSHB 1089 would allow a fraternal benefit society to offer life, accident, or health insurance policies that are consistent with Insurance Code, chapter 10 and other provisions in the code. The bill would allow fraternal benefit societies to appoint licensed legal reserve life insurance agents to sell benefits to members.

Owners of benefit contracts could change their beneficiaries consistent with the society’s rules. The bill also would provide for the payment of a benefit contract when no beneficiary under the contract existed.

CSHB 1089 would expand the requirements for insurance and annuity certificates for members of fraternal benefit societies. It would repeal the existing provisions for benefits and certificates. It also would remove the \$300 limit on monument or tombstone benefits.

**Membership requirements.** The bill would require fraternal benefit societies to specify in their laws or rules the eligibility standards for each membership class. It would create a grievance procedure and would authorize the admission of social members.

**Financing and bond requirements.** The bond requirement to become an authorized fraternal benefit society would increase from \$5,000 to at least \$300,000 and not less than \$1,500,000.

The aggregate amount of payments collected by a society from its members before the society could incur any liability, issue a certificate, or pay a benefit would increase from \$2,500 to \$150,000.

**Indemnity for employees and limits on volunteer liability.** A society could indemnify a director, officer, employee, or agent of the society if that person were found guilty of a breach of duty. Employees or volunteers for a society could not be held personally liable for damages caused within the scope of their duties unless the damages resulted from their own wilful or wanton misconduct. CSHB 1089 would not limit the liability of the society itself.

This bill would take effect January 1, 2000, except that the repeal of the existing provisions on benefits and certificates would take effect January 1, 2001, and would apply only to certificates delivered, issued for delivery, or renewed on or after that date.

**SUPPORTERS  
SAY:**

The 60 fraternal benefit societies licensed to operate in Texas have more than 575,000 members. More than \$16 billion of life insurance has been written for these societies. Six societies are based in Texas, including the Catholic Family Fraternal, the Catholic Life Insurance Union of Texas, the Catholic Union of Texas, the Grand Court Order of Calanthe, the Order of the Sons of Hermann, and the Slavonic Benevolent Order of the State of Texas. These nonprofit organizations are an important part of insurance accessibility and community assistance in Texas.

CSHB 1089 would adopt revisions to the model code made by the NFCA in 1983. More than 40 states, including Florida, New York, California, and Illinois, have adopted these revisions.

**OPPONENTS  
SAY:**

No apparent opposition.

**NOTES:**

The committee substitute redesignated most of the sections in the original bill to comply with the format of the existing law.

The companion bill, SB 1153 by Bivins, passed the Senate by voice vote on April 20 and was reported favorably, as substituted by the House Insurance Committee on May 5.