Economic Contributions of Fraternal Benefit Societies: A Five Year Perspective

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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. As defined in the Internal Revenue Code and state law, fraternal benefit societies are not-for-profit mutual aid organizations that (1) have a fraternal purpose, (2) operate under a lodge system, and (3) insure members and their families against death, disease, disability. The activities of fraternal members organized through their local lodges 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. With nine million members nationwide, fraternal benefit societies bring together like-minded people who share a common bond for the purpose of helping others. By volunteering their time and coming together to help their communities through charitable service, members of fraternal benefit societies make a large and sustained economic contribution to the United States. These benefits come about in two ways: directly through the contributions of money and time by members of fraternal benefit societies, and indirectly through the benefits generated when the efforts of fraternal members deepen the bonds within communities and improve the lives of their residents. This latter contribution of fraternals involves the creation of valuable social capital—the bonds between people that make communities stronger and more cohesive.

On average from 2007 to 2011, in the midst of a severe recession, the charitable and voluntary activities of fraternal benefit societies produced more than $3.8 billion in benefits to the economy each year, for a total of nearly $19 billion over the five-year period. Those benefits to society vastly outweigh the estimated foregone revenue of roughly $50 million per year associated with the federal tax exemption that supports the system. In quantifying the social and economic impacts of fraternals from 2007 to 2011, this study expands on a September 2010 study that examined the impact of fraternal benefit societies (specifically the two largest fraternals, Thrivent Financial for Lutherans and the Knights of Columbus) over the single year of 2008 (Swagel 2010). By analyzing the cumulative impact over five years, this study confirms and extends the results of the earlier paper by showing that the immense positive economic contributions of fraternals greatly outweigh the estimated federal revenue impact of the tax treatment that sustains the fraternal system.

The direct contributions of fraternal members' time and money for charity are enormous. Together, fraternal benefit societies 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 volunteered nearly 400 million hours of their time during the five-year period considered in this study, with a direct value of $1.6 billion on average in each year. The activities through which fraternals make such contributions are many and varied, meeting needs both large and small. Fraternal members build homes for those
without; organize the Special Olympics Games that so immensely benefit the disabled; take care of the elderly, ill, and vulnerable; provide emergency supplies to people whose lives have been upended by natural disasters; and mentor children while teaching them about patriotic American values. Fraternals organize sports leagues; they volunteer in schools; they provide service to their churches and a huge variety of local organizations and causes. Fraternal members provide wheelchairs and prosthetics free of charge to people who need them—including to victims of the Haitian earthquake and the 2013 Boston Marathon Bombing among many others. When flooding threatens Midwestern communities, fraternal members fill sandbags, clean inundated homes, and raise money to help the affected families get back on their feet. Fraternal members help provide food for low-income families and assist them in learning about the importance of making good financial decisions and faithful stewardship. These are but a few of the tangible examples of the charitable and community-oriented activities of fraternal benefit societies.

This study further measures the indirect impact of fraternal activities in communities. More specifically, this paper uses the economic framework developed in the September 2010 study to comprehensively measure the beneficial impact of the social capital generated by fraternal benefit societies in the communities they serve through their many charitable and volunteer activities. In addition to the direct contributions of time and money, the activities of fraternal benefit societies add an average of $1.7 billion per year in indirect economic benefit to society, for a total of $8.6 billion during the five-year period. Without the tax rules that today govern fraternal benefit societies, this total of $19 billion in benefits generated by fraternals over five years would be at risk.

Importantly, the impacts of fraternal benefit societies are impossible to replicate by government agencies. Even trying to do so would add further pressures to already stretched local, state, and federal government budgets or leave more needs in communities unmet. But government or corporations cannot act in the same way and with the same commitment as dedicated volunteers who are active in their communities and come together through their lodges to help others. 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.

The Fraternal Model

Fraternal benefit societies are not-for-profit mutual aid organizations that bring together members with a common bond and provide them with opportunities to make meaningful contributions to their local communities and to society.1 As member-owned organizations, fraternal benefit societies have existed in the United States since the mid-19th century when individuals in remote communities joined others with a common bond to establish local lodges and pool resources to provide insurance protection and other financial service products to their membership. The very first Internal Revenue Code promulgated by the federal government in the early 20th century recognized and encouraged this valuable model by

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1 This description is from the American Fraternal Alliance, on http://fraternalalliance.org.
exempting fraternal activities from federal taxes (which is now codified as Internal Revenue Code Section 501(c)(8)).

All 50 states and the District of Columbia have also adopted a tax exemption for fraternal benefit societies recognizing the importance of and encouraging the benevolent and charitable nature of the work they do.

To fulfill their missions, fraternal benefit societies are required by IRC 501(c)(8) to have a fraternal purpose, operate under a lodge-system and provide for the payment of life, sick, accident or other benefits to its members. As outlined by state statutes, fraternal benefit societies are required to serve specific tax-exempt purposes including charitable, educational, benevolent, fraternal, social, patriotic or religious purposes through the volunteer lodge activities of fraternal members—a feature not required of other tax-exempt organizations. Fraternals exist precisely so that members can feel more secure in their own lives and come together to help others in their communities. This is the heart of the fraternal model.

To be described in IRC 501(c)(8), an organization must meet the following requirements:

- It must have a fraternal purpose;
- It must operate under the lodge system; and
- It must provide for the payment of life, sick, accident, or other benefits.

An exception applies to separately organized insurance branches of fraternal societies. These need not operate under the lodge system, but must provide permissible benefits exclusively to members of a lodge system.


Fraternal benefit societies serve their fraternal purpose when their members, who share a common bond, act to serve others. Indeed, the shared common bond at the center of the fraternal model exemplifies the forces that give rise to strong levels of social capital. In the case of both the Knights of

2 See, e.g., KAN. STAT. ANN. § 40-742 (A fraternal benefit shall operate for one or more social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic or religious purposes for the benefit of its members, which may also be extended to others”).
Columbus and Thrivent Financial for Lutherans, the common bond shared by members is religious in nature. Other fraternal societies share a common bond of ethnicity, such as the Croatian Fraternal Union, the Sons of Norway, or the Ukrainian National Association, to name but a few. Yet other fraternal benefit societies, including the Modern Woodmen and Woodmen of the World, bring together people who share a commitment to the values of family, community, and country—all coming together in service to others.

All fraternals share the key features of a common bond and a lodge-based system through which their charitable and voluntary activities are organized and supported. Through the unique lodge-based fraternal model, member-volunteers come together to identify and work to meet needs in their communities or to respond to natural disasters and other crises. The charitable activities of lodges are not driven by governmental or corporate directives but by the efforts of local members. **The very purpose of fraternals is to strengthen communities: the lodges exist to bring members together to serve the common good. Through the local lodges, the efforts of fraternal members are rooted in their communities and are directed at local needs that might otherwise not be met—needs that the people living in a community know exist and understand the best way to address.** The fraternal structure connects these lodge member-volunteers together with the organizational backbone and financial resources of the national fraternal offices to support their local efforts. This unique connection and its leveraging power result in consistent benefits to society and stronger communities nationwide. These benefits are highlighted and quantified in this study.

Like many Americans, members of fraternal benefit societies would give to charity and volunteer for charitable projects in their communities on their own. But by joining together with others who share a common bond, and utilizing the support provided by national fraternal societies to their members, these private efforts are magnified to provide a greater and more consistent positive impact on communities and the nation. The structure of the fraternal system thus helps members to think bigger and do more good together than they would as individuals. With the backing of the fraternal system, members engage in more and larger-scale charitable activities. They make a difference. This is not surprising, but demonstrates the leverage of the fraternal model in improving the lives of both individual members and the communities in which they give back through charity and volunteerism.

The core feature of the fraternal model that sustains its existence and impact is the issuance of insurance products to protect the financial security of members and their families. As required by law, the revenues from these business activities sustain the local lodge network and support the charitable and volunteer activities organized by lodge members. This is a socially valuable component of the
fraternal system. Research has found that people who are more financially secure in their personal lives are more able and willing to participate in service activities and thereby give back to their communities. The two sides of the fraternal model thus fit together: the issuance of insurance products improves the lives of fraternal members while generating the resources to offer members the opportunity to serve others and to support activities in their local lodges that provide billions of dollars in benefits to communities each year. The value of this insurance protection is not included in the calculations in this study, which focuses on the impact of the charitable and voluntary efforts of fraternal members, but would be an additional benefit from the fraternal model.

The infrastructure embodied in the fraternal benefit society model reflects their unique structure and historical legacy that unites members with a common bond and brings them together in local lodges with deep traditions of service to others. This historical legacy cannot be recreated and comes about through the combination of the tax treatment that provides resources to support fraternal activities and the extensive local infrastructure and leveraging power of community-based lodges. The long-standing policy decision to support the fraternal structure provides extensive societal benefits through the mix of local involvement and national support that brings together people with like-minded interests and beliefs in support of their communities and beyond.

**The Value of Social Capital**

The charitable and volunteer activities of fraternal members bring people together and deepen societal interconnections, thereby improving lives and strengthening communities. This is the process by which fraternals generate social capital and provide a benefit to society beyond the direct benefits of time and dollars from volunteers and charitable giving. A large body of academic literature shows that activities that foster increased interactions between people lead to meaningful economic impacts. *When fraternal members gather together to help others, volunteer to improve the lives of children and families, or carry out any of their myriad other activities, they generate social capital that benefits both individuals and communities as a whole.*

*Social Capital: the connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them.*

- Robert Putnam, *Bowling Alone*

Social capital has been described by Harvard University Professor Robert Putnam (Putnam 2000) as “the connections among individuals – social networks and the norms of reciprocity and trustworthiness that
arise from them.” Communities with higher levels of social capital are characterized by richer relationships between people and increased trust and cooperation, which lead to a range of positive outcomes, including stronger economic growth, better health for members of the community, and greater personal satisfaction.

Social capital creates benefits for individuals and communities in a variety of ways, as exposited by Putnam and others. With increased social capital, people in a community work together more easily and efficiently to address challenges and achieve common objectives. In particular, social norms can encourage cooperation while social networks promote those norms and help to overcome collective action dilemmas that might otherwise stymie action. Increased social capital further results in greater trust between people in a community, which again makes it easier to take on common social challenges. Social capital also widens the awareness of the needs of other people, while the interpersonal networks that characterize a community with strong social capital allow for robust exchanges of information that boost economic well-being and personal happiness.

Social capital is developed by a combination of institutions, culture, and the actions of members of a community. Social capital can be produced in much the same way as workers are trained to become more skilled or physical infrastructure such as computers or roads are installed or improved. Actions by both the private sector and government can promote or diminish social capital. Indeed, a key point of this study is that the tax status that supports fraternal benefit societies leads to the generation of social capital, and this in turn provides economic gains that are many times greater than the revenue that would be obtained from imposing a tax on the activities that support fraternals’ local lodges. The long-standing feature of the U.S. tax code that supports the fraternal system thus involves an enormous return to society. This comes about because the structure of fraternal benefit societies leverages the good intentions of fraternal members many times over, as the organizational backbone provided by the societies allows the members of local lodges to do more good for their communities than they would be able to accomplish on their own, while also building valuable social capital.

Researchers have measured the impacts of activities associated with increased social capital and found that the benefits are tangible and long-lasting. Social capital matters. Communities with greater social capital are stronger and more cohesive, with greater trust between adults, more sharing of information and other forms of social cooperation, better educational outcomes for children, and lower rates of crime and other societal ills. Increased social capital also has significant economic impacts. Children that grow up in stronger communities receive a better education and consequently
have higher wages and therefore improved standards of living as adults. By generating social capital, the activities of fraternals thus make for a stronger U.S. economy and more prosperous nation today and for future generations.

To find that fraternal benefit societies have an average $3.8 billion annual impact in communities, this study begins with a methodology developed in the 2010 study based on research showing a strong connection between education and social capital outcomes. While the indirect benefits of fraternal activities in communities go well beyond education, the positive impact of fraternals can be measured by using the academic research that quantifies the relationships between improved education in giving rise to social capital and the impact of increased social capital in boosting education, and thus the economic outcomes of people in those communities with greater social capital.

Glaeser, Laibson, and Sacerdote (2000) state that the role of education in the development of social capital is “one of the most robust empirical regularities in the social capital literature.” Algan, Cahuc, and Shleifer (2011) similarly find that education promotes the formation of social capital, notably when students work actively together in groups (an illustration as well of the importance of the participatory model of fraternal lodge activities). The social capital created is valuable: Oreopoulos and Salvanes (2011) discuss how better education leads not just to higher incomes but also to increased work and life satisfaction, and better decision-making about a range of issues such as a healthy lifestyle and a happy marriage and family life.

As was further explored in the 2010 study, more social capital in the form of stronger and more civic-minded communities leads to better educational outcomes. Katz and Goldin (1999) show that measures of social capital prevailing in the United States in the late 1990s are closely related to economic and schooling conditions from 1900 to 1930 when the movement to institute public schools was taking off unevenly across the country. States with relatively high measures of social capital tended to start public high schools earlier than states with lower levels of social capital, and this differential has had a long-lasting impact, with continued contributions to better human capital formation in states with more social capital. In the same way, the creation of social capital by fraternal benefit societies has a long-lasting impact on the communities where lodges are found: families are stronger today and children have better trajectories as adults with greater education and higher earnings. These benefits then carry on into future generations.

With social capital, there also is a positive peer effect by which individuals with more education and higher skills give rise to better education and greater productivity for others. Imberman, Kugler and Sacerdote (2012) find that children in classrooms with better behaved children have superior outcomes in their learning compared to children with poorly behaved peers. A classroom with good peers is a setting with considerable social capital: the children within the class form strong bonds that translate into positive behaviors and economically beneficial outcomes.

Education is further associated with lower rates of criminal activity and greater involvement in civic and community affairs. This again means that the positive impact of the volunteer activities of fraternal
members goes beyond the children who are directly receiving support, as the social capital created gives rise to benefits for society as a whole.

Participation in communal activities and the creation of social norms that lead others to participate cooperatively in society likewise leads to mutual economic benefits. Durlauf and Fafchamps (2004) explain that there are benefits to society when people within a community trust and understand each other. Communities are safer when neighbors look out for one another, and economies function better and grow faster when people trust each other and share common goals. Social capital is created by the informal associations that enhance trust and make it easier for people to work together for the good of society. Costa and Kahn (2002) discuss the process by which communities with common bonds have greater participation in civic activities, higher trust, more volunteerism, and increased willingness to undertake public expenditures that benefit a community as a whole. There is enormous value to diversity within every community, but there are also benefits to groups of like-minded people who act together for a common good. This makes clear the positive role of lodge-based fraternal benefit societies in providing an organizational framework that helps like-minded individuals come together for a common purpose. In this way, the activities of fraternal benefit societies create manifest benefits for communities throughout the United States. The next section demonstrates how fraternal activities create community-strengthening social capital.

Fraternal Activities Generate Social Capital

DEDICATED TO THEIR COMMUNITIES
Each year, fraternals continue building on their original missions and significantly enrich the lives of those around them. In 2012 alone, nearly 9 million fraternal volunteers in the U.S. and Canada devoted more than 82 million service hours to their communities and gave $460 million to deserving individuals and service organizations.

Source: American Fraternal Alliance

As the 2010 study described, the activities of fraternal benefit societies meet needs in communities large and small. From helping to stock the local food pantry, to hosting a fundraiser for a family struggling with overwhelming medical bills, to building community parks and wheelchair ramps wherever needed, fraternals are on-the-ground, ready to serve. Beyond the tens of thousands of volunteer hours and millions of dollars donated per year, the unique fraternal model enables members to have a larger and more sustainable impact when they act together to help one another and serve those in need, creating valuable social capital simply by living out the fraternal purpose of strengthening communities nationwide.
The Fraternal Model Creates Social Capital

Developing Social Networks – Bringing People Together

Fraternal benefit societies develop and strengthen social networks that allow their members to act collectively to help others, build relationships and trust with each other, and provide (and receive) mutual support in times of need. The fraternal structure itself, by bringing together the local energies and knowledge of members with the organizational and financial resources of the national organization, is critical to how fraternals strengthen communities. The process of generating social capital is precisely that of people coming together as a community to support one another. The fraternal structure and networks developed through the fraternal system build trust within the network and make it easier for like-minded people to take on societal challenges together and help others.

The requirement of a common bond within the fraternal benefit society inherently promotes social capital by bringing together people with shared interests to foster what sociologists call “bonding capital,” by which communities become stronger because the people within them are more connected
and have greater trust in each other. This social capital enables people acting together for the common good to do more than they could individually. **This is the essence of the fraternal model.**

For instance, the Knights of Columbus in Louisville, Kentucky, organized a motorcycle event in which more than 125 riders raised thousands of dollars to support an organization that facilitates the adoption of children with disabilities and special circumstances. In Bristol, Tennessee, the local Knights of Columbus banded together to purchase and donate items needed for children and mothers staying in a shelter for those affected by domestic violence. In Lompoc, California, the Knights council served meals to the homeless and needy at a local community kitchen—a charitable activity replicated by different fraternal lodges across the country. Other fraternals undertake similar efforts: in Waukegan, Illinois, Thrivent members provide needy children with backpacks filled with school supplies in the fall, and then donate winter jackets to children in local elementary schools and homeless shelters. In December 2012, the volunteers for this project included 213 adults and 75 children working together to distribute 1,200 coats.

These fraternal activities not only provide direct assistance to the needy, including to senior citizens and children, but through the fraternal grassroots network they bring people together for the common good. The charitable deeds and donations are the direct positive benefit from the fraternals’ actions. But the positive impacts of this grassroots network are broader, since all people in the affected communities can feel more secure in the knowledge that others will support them, if needed.

This is beneficial for those on the receiving end of the assistance, but it has two further benefits: it strengthens the broader communities, and tends to make the fraternal participants themselves more fulfilled and more productive members of society. As a result, the activities of fraternal benefit societies mean improved lives and stronger social networks with positive impacts for fraternal members, their families, and their communities, ultimately producing an enormous positive impact for American society and the U.S. economy as a whole.

**Building Community Trust & Widened Awareness of Needs**

Fraternal lodge members are present at the ground level in communities, active in local organizations and congregations, and thus well-positioned to identify local needs when they arise. They provide their energy, time, knowledge, and their personal charitable donations, assisted by the organizational and financial support of the national fraternal societies, to bring people together and work to meet local needs that might otherwise go unmet.

Gathering people together builds trust and strengthens communities. In places with smaller populations, people expect that fraternal lodges will organize communal activities—people want to be part of a community that works together for the common good, and rely on fraternals to make this possible. In Chamberlain and Oacoma, twin towns in South Dakota separated by the Missouri River, a large number of residents are thought to belong to fraternals, particularly the Modern Woodmen and Thrivent, which have especially strong historical legacies of activity in the area. There are six different fraternal lodges in these two small communities alone so that members can become part of a
community and not overwhelm any one facility. This level of engagement reflects the power of the common bond that draws people together in fraternal benefit societies. Fraternals generate social capital precisely by connecting people, building trust and strengthening their bonds to one another, and then making it possible for them to help others.

A core strength of the fraternal system is that members intrinsically know and understand how to meet local needs. In Ohio, when members of a Knights of Columbus council banded together to replace a neighbor’s broken wheelchair, they were not delayed by government or corporate bureaucracy but could act quickly because they collectively understood that this was a pressing need. Similarly, Knights in Lago Vista, Texas, donated three wheelchairs to a local organization that provides medical assistance and equipment to needy recipients. In Arkansas, members of the Modern Woodmen purchased new uniforms for a high school basketball team, with funding both from local donations and a matching program from the fraternal national office. Lodge members knew to do this because one of them had seen the team play with tattered jerseys and acted, knowing that he could turn both to other Woodmen and to the national organization to raise the needed funds.

In Florida, Knights in Port Orange come together each year to raise money to support special needs students in local public schools, while Knights in Bartow collect shoes to donate to needy elementary school children. Other Knights in Anaheim, California, became aware of the need for entertainment for children undergoing hours-long dialysis at a local hospital and banded together to purchase and donate thousands of dollars of televisions, tablets, and video games to keep the children happy and occupied.

Fraternal lodge members decide on a service project based on their knowledge of local needs, and then receive support from the national organization to meet those needs. For example, Thrivent lodge members in the northwestern states of Idaho, Montana, and eastern parts of Oregon and Washington, saw firsthand the growing challenge of hunger in rural communities and the lack of refrigerated storage at local food banks. In response, they banded together to develop a program to help address this growing problem throughout the region, working in partnership with local communities and the America’s Second Harvest non-profit hunger relief network.

The process by which this program came about illustrates the benefits of the fraternal model. At the behest of local lodge members, Thrivent donated a 24-foot refrigerated truck, dubbed the “Homegrown Help Truck,” to the Inland Northwest region of Second Harvest to support a mobile food bank initiative that distributes fresh produce and other items to those in need in communities without refrigerated storage.
As Thrivent members in local lodges recognized the hunger needs in their communities, they joined together in service teams to supply the thousands of hours of volunteer work that make local Homegrown Help Truck food distribution events possible throughout the region. Fraternal members thus provided not just the direct support of dollars to buy the truck and volunteer hours to staff the events, but also inspired greater awareness of the specific needs in their communities, while building trust among volunteers, the local food banks, and the individuals and families receiving assistance. The result is both fewer hungry children and adults, and a stronger community.

**Creating First Responders in Times of Crisis**

With an acute awareness of the needs of local communities, a grassroots infrastructure, and national support, responding to vital local needs is a specialty of fraternal benefit societies. Volunteers from Knights councils throughout the metro Denver, Colorado area responded to assist with flood relief in the north of the state, serving as loaders and drivers to deliver emergency supplies to affected families. In North Dakota, Thrivent members worked together to collect $84,000 to support flood victims, while volunteering thousands of hours to help put in place sandbags, prepare meals for those displaced, and clean inundated homes. These are just a few examples of local initiatives made possible by the national organizational framework of fraternal benefit societies.

The efforts of fraternal benefit societies can be especially important in small, rural communities with limited resources and unforeseen urgent needs. In Eureka, South Dakota, for example, members of the Modern Woodmen and Thrivent worked together to raise money for people whose lives were disrupted by a tornado. A benefit dinner and talent show raised more than $75,000 while bringing the community together to support and comfort the victims of the disaster. Lodge members noted that everyone in the town had been affected by the disaster and wanted to help; they reported that virtually the entire town participated in the charitable activities. It was the organizational efforts of the two fraternal societies working together that provided a way for the community to act on its best intentions. And the positive impact of fraternals was multi-dimensional: the people receiving the funds benefited directly, but so too...

*Source: LutheransOnline.com*
did others who saw that acting together strengthens their community. Further, this increased social capital would be expected to have benefits into the future, including through the children whose lives are improved by growing up in stronger communities.

After the horrific 2013 Boston Marathon bombing, it was likewise natural for the Knights to develop a program under which people who had lost limbs but did not have adequate health insurance coverage could receive funding for either an additional or a higher-quality prosthesis to regain as much mobility and as high a quality of life as possible. The national Knights of Columbus organization provided the funding and brought together experts in the field of prosthetics and rehabilitation to guide the program, but it was volunteers from local Boston-area Knights councils who came together to put these resources into action by assisting bombing victims at mobility clinics and other events.

The Knights of Columbus responded as well after the December 2012 school tragedy in Newtown, Connecticut, working through the efforts of a local Knights council (St. Virgilius Council 185). Local members organized immediate assistance to affected families, but efforts continued long after the nation's attention had moved elsewhere, including the Knights providing a donation of $100,000 in September 2013 to support continued local efforts.

The human element of helping others is first and foremost in the motivations for the charitable actions of fraternal members. At the same time, social capital is generated from these efforts by bringing people together for a common purpose and increasing the trust within communities—an activity that is especially important in the wake of tragedies that affect broad groups of people. People throughout the United States immediately contribute their prayers and dollars to help people within the affected communities. The contributions of fraternals are part of this response, but are especially effective due to the organizational capabilities of the fraternal system. The consistent presence and ability of the fraternal lodges to bring people together to respond to urgent needs is precisely the process that generates social capital.

**Educating and Inspiring Generations of Service**

Educational activities are another dimension in which fraternal benefit societies both help individuals—children and adults—and strengthen communities. In Alabama and Georgia, and throughout the nation, fraternal lodges of the Woodmen of the World carry out the long-running focus of their society on patriotic educational activities, including providing handbooks of American history and traditions to children and to newly-naturalized citizens. These are activities that the Woodmen of the World has carried out for decades across the United States to help perpetuate the feeling of patriotism and community that existed when the greatest generation of Americans came together in the 1940s to make the world safe for democracy.
Members of the Modern Woodmen nationwide provide community educational programs in topic areas that range from financial literacy and patriotic awareness to exercise and nutrition. The Modern Woodmen provide materials for both teachers and students, with the resulting educational activities touching some two million children each year across schools, youth groups, and home-schooled children.

Thrivent has made a sustained and large-scale commitment to provide financial education nationwide through financial literacy workshops so that more Americans can make better informed decisions about key choices in their lives, bringing their faith and finances together. These programs have received national recognition such as the Excellence in Financial Literacy Education Award from the Institute for Financial Literacy. These national efforts have also been supplemented by local programs in communities with especially large concentrations of Thrivent members. In the Twin Cities of Minnesota and Chicago, Illinois, Thrivent committed $5.5 million to start-up community financial centers in which low-income families can learn about ways to provide for their personal financial security, including through public-private Individual Development Account programs.

Importantly, the educational efforts of fraternals benefit not just those who are directly helped, but also the broader communities in which the fraternal benefit societies are active. Better educated children become more involved and caring adults; meaning that efforts to improve the education of children have a positive spillover in enriching others in the broader community with valuable social capital. These are precisely types of circumstances that contribute to social capital: the lives of individuals are made better, with the activity taking place through communal efforts that bring people together and build trust within society. These actions for the common good by fraternals are more effective than what could be accomplished by the individuals working alone. The ability to solve collective problems is another hallmark of communities with strong social capital.

Fraternal members also come together to enrich the lives of children in ways beyond education. Fraternal benefit societies are active in organizing sports leagues and camps throughout the nation. The Woodmen of the World, for example, bring together youth in overnight camps that combine sports and outdoor activities with a focus on building character and citizenship. Costs are defrayed by the contributions of local lodges together with funds from the national organization, so that the cost to families is modest. Other fraternals likewise organize similar activities. The Knights council in College Park, Maryland, for example, hosts an annual summer camp in which local youth have fun while learning...
timeless values of sportsmanship and caring for others. Again, the creation of social capital can be directly linked to fraternal activities that gather people together, raise their awareness of others’ needs, and increase the trust within a community.

**Acting Together with National Impact**

The fraternal model brings together a unique mix of local energy, knowledge, and presence together with the support and organizational infrastructure of the national fraternal societies. By joining together with like-minded individuals to serve the common good, fraternal members are able to leverage their individual efforts many times over for a greater positive impact in communities. This enables fraternal members to engage locally to meet daily individual needs as well as tackle broader social needs on a national scale.

The extensive grassroots structure of fraternal benefit societies helps support large-scale projects that involve sustained efforts by local lodge members as well as the national fraternal organizations. Thrivent has long partnered with Habitat for Humanity to build homes for people in need, with more than $180 million in financial support from Thrivent and more than 3.4 million hours of volunteer service by lodge members, resulting in more than 2,900 homes being constructed. This partnership makes Thrivent Habitat’s largest private sector ally in terms of fundraising as well as volunteers. Thrivent volunteers also made special efforts to assist communities in the Gulf Coast affected by natural disasters, with more than $4 million in support for Thrivent members to construct more than 75 new homes for people in need.

The Knights of Columbus has a long and distinguished history of working to support and improve the lives of people with disabilities, including through the support for large nationwide programs such as the Special Olympics and smaller endeavors such as obtaining wheelchairs for people in need with more than 40,000 donated, including via the program noted earlier in response to the Boston Marathon Bombing.

The Knights also organize an annual national effort to provide winter coats for needy children, with more than 42,000 coats purchased and distributed through the “Coats for Kids” program in the winter of 2012-2013 alone. Responding to the needs reported by local lodge members, the Knights support hungry families across the country, with volunteer hours and charitable contributions that members make to local food pantries and soup kitchens supplemented by funds from the national Knights office. In Cranston, Rhode Island, for example, the local Knights council brought people together for both activities, organizing fundraisers that allowed the members to buy winter coats for the needy and to donate hundreds of pounds of food to a local pantry.
Acting together through their lodges, fraternal members improve communities for the benefit of all. The stronger communities brought about by the community-focused charitable giving and volunteerism of fraternal members provide a positive externality that improves the lives of all people in that community. Such a beneficial impact from fraternal activities takes place every day in communities across the country, and can be seen as involving an enormous economic contribution by fraternals. *While the fraternal model is made possible by the financial resources generated through the long-standing tax treatment of fraternal benefit societies, the charitable and voluntary contributions of fraternals to their communities and to the U.S. economy arise from the activities and interests of the members of each local lodge, and not from any government directive. This is a vital distinction.*

**Quantifying the Contributions of Fraternal Benefit Societies**

In quantifying the impact of contributions to society made by fraternal benefit societies, this study looks first at the direct impact of fraternals' charitable giving and volunteerism. Many charitable activities of fraternals directly improve people’s lives, such as building a house through Thrivent’s partnership with Habitat for Humanity. The direct benefit of this is the value of the house, which is captured in the dollar value of the charity provided and the value of the time given by fraternal members to construct the house. The same would be the case for assessing the value of the support for the Special Olympics by the Knights of Columbus: the first step would be to tally the dollars directly provided and the hours of service by Knights volunteers. This direct impact is captured in the analysis of this study.

There is an additional indirect benefit for society that can be quantified in terms of social capital. For example, as demonstrated above, consider the improved security and happiness of a family that is able to move into its own home as the result of the charitable activity of fraternals. This family benefits, but so does the entire community. In this way, the efforts of fraternals build social capital within the community. Millions of volunteer hours donated by fraternal members correspond to individual people receiving assistance, but together these activities also help people within their communities build trust with each other and become more secure, creating even more positive outcomes such as lower crime rates, better educated children, and more forms of social cooperation. When fraternal members engage in charitable activity, they strengthen families, and the relationships among neighbors in a community. This has a long-lasting positive impact on the children within that community, which in turn translates into a long-term positive economic impact.

Indeed, the positive impacts of fraternals go beyond their charitable donations—though those are invaluable all the more in a tight fiscal environment in which government resources are often strained. This indirect impact is especially important to quantify because the grassroots efforts of fraternals
cannot be easily replicated, and the positive impacts are made greater by the way in which these organizations leverage their national infrastructure, the community resources provided by fraternal organizations, and the common bonds and shared interests of local members. A proper reckoning of the contributions of fraternals thus includes both the dollars of charity and hours of time volunteered, along with the value of the benefits from stronger communities and deeper social ties resulting from the activities of fraternal benefit societies. When lodge members do good things in their communities, they build social capital. As such, the empirical methodology in this paper captures both the direct and indirect impacts of fraternal charitable and volunteer activities.

As noted earlier, the methodology established in the 2010 study to determine the economic impact of the indirect contributions of fraternals in communities is based on quantitative findings about the impact of education on social capital and then on the increased lifetime incomes enjoyed by people with better educational outcomes. Just as education has an indirect impact in building social capital, so too do the charitable, educational, social, and religious activities of fraternal benefit societies. The direct impacts of volunteering and of education are not the same—education is obviously different from building a home. But the indirect impacts are similar in that both are derived from the value to society resulting from increased social capital—volunteering strengthens the bonds of society just as education creates a more involved and trustworthy population. The link with education is used in this study to provide a quantitative estimate of the social capital impact, while keeping in mind that the channels by which fraternals affect the economy, communities, and families go beyond education.

This calculation involves numerical steps that translate hours of volunteer efforts by members of fraternal benefit societies to an equivalent dollar contribution to society resulting from the positive impact of increased social capital. This indirect impact is then added to the direct contributions of charitable giving and volunteerism for a total economic impact of fraternals in communities nationwide.

In carrying out each of these calculations, the impacts of social capital is judged cautiously at every turn, so that the final estimate is a conservative one—a lower bound of the potential impact on society that avoids overstating the effect of added social capital. Even with this cautious approach, the benefits provided by fraternals are readily seen as enormous.
The Direct Economic Impact

The value of the volunteer time and resources contributed by fraternal benefit societies is first used to compute fraternals' direct impact, which totals $10.3 billion in the five years from 2007 to 2011. Of that amount, fraternal benefit societies contributed nearly $2.4 billion in charitable donations over this period, for an average of more than $478 million each year. In addition, the members of fraternals provided 383.9 million hours of service from 2007 to 2011, an average of 76.8 million hours each year. The per hour value of volunteer time calculated by the Independent Sector is used to convert hours of volunteering into an economic benefit of $7.9 billion total over the five years, or an average of just under $1.6 billion per year. Adding together the $2.4 billion in charitable donations and the $7.9 billion benefit from volunteered time gives the total direct economic impact of $10.3 billion from 2007 to 2011.

The Indirect Economic Impact

The next step is to compute the economic impact of fraternal benefit societies through the social capital they create in the communities they serve. The amount of social capital is first calculated from the volunteer hours performed by fraternal members, which is then used to compute the economic impact of the social capital generated by these volunteer hours. This calculation is based on the return of the social capital created through education—a comparison established in the 2010 study.

To calculate the amount of social capital created by fraternal volunteerism, the hours of volunteerism in each year are converted into years of education. The average primary and secondary student in the

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3 See [http://www.independentsector.org/programs/research/volunteer_time.html](http://www.independentsector.org/programs/research/volunteer_time.html). The value of volunteer time per hour calculated by the Independent Sector rises from $19.51 per hour in 2007 to $21.79 per hour in 2011. The calculations in this study use nominal (that is, current) dollars in each year. Adjusting for inflation to present the results in 2012 dollars would increase the calculated value of the economic impacts, since 2007 impacts would be scaled up to account for a total of more than 8 percent inflation from 2007 to 2011.
United States receives a total of 1,206 hours per year of schooling. The 383.9 million hours of fraternal volunteer work from 2007 to 2011 thus translates into the equivalent of 318,325 additional children receiving a year of education in terms of creating social capital and the resulting positive impacts for society.

This is an extremely cautious estimate of the generation of social capital by the members of fraternal benefit societies in that it counts only what the fraternal members do for others and not the social benefits enjoyed by members of the lodges themselves. One might reasonably expect that social gatherings within the lodges themselves bring people together, strengthen community bonds, and generate social capital, but the impact of these activities is not included in this study’s calculation. Moreover, each hour in school typically consists of one or two teachers with 20 or more children. To be cautious, each volunteer hour is taken as equivalent to the social capital generated by educating a single child rather than an entire classroom.

Research indicates that a year of education increases a person’s earnings in the U.S. by an average 10 percent over an entire working life. This impact of education in boosting incomes is quite real, with Moretti (2003) reporting that the consensus of academic research is that “all else equal, individuals with an extra year of schooling earn 8-12% more per year.” The Census Bureau’s American Community Survey provides data on per capita income for various groups within the U.S. population. To ensure a cautious estimate of the positive impact of fraternal benefit societies, this study calculates the positive impact of a 10 percent gain in earnings for people with less than a high school diploma. Since the earnings of this group are below those of the average for the overall U.S. population, the additional positive impact from the education measured will be less than the overall U.S. average. Per capita income for this group was $20,643 in 2007 and declined to $19,356 in 2010 before rising to $20,437 in 2011. The 10 percent increase in earnings from added social capital equals an additional $2,064.30 for a year of education in 2007 (that is, 10 percent of the income in 2007), and likewise for other years. The additional year of education raises the income of the beneficiary by this amount each year over their working lives. For an average 40 years of a working life, the present value of the additional year of education equals $27,521 in 2007 and $26,290 for the lower earnings in 2011. Again, this is the increment to lifetime earnings from an additional year of education in childhood before entering the workforce.

The value of the additional education is then applied to the equivalents of the additional years of education calculated in each year from 2007 to 2011. In 2007, for example, the 86.2 million hours of volunteerism are equivalent to an additional 71,450 children receiving an extra year of education (because 71,450 equals 86.2 million divided by 1,206 hours of education in a year, with rounding). Each additional year of education is worth $27,521 over the lifetime starting in 2007, meaning that the social capital generated in 2007 has an economic impact equal to $1.97 billion (calculated as $27,521 multiplied by 71,450). This calculation is carried out for each year from 2007 to 2011, giving a total economic impact from the creation of social capital alone equal to $8.6 billion for all five years together.
The total economic impact of fraternal benefit societies from 2007 to 2011 is the sum of the $8.6 billion indirect impact of the social capital created by their activities and the $10.3 billion direct value of the charitable and volunteer activities. This gives the total economic impact of fraternal benefit societies over five years as $18.9 billion, or $3.8 billion on average per year.

Policy Context and Implications

The significant economic contributions to the United States from fraternal benefit societies reflect fraternals’ unique mix of local enthusiasm and talent, and the resources provided by the national fraternal organizations. These resources include both financial resources to support the initiatives of local lodges as well as vital organizational and programmatic assistance.
The financial capacity for fraternals to provide these resources derives from the tax status of lodge-based fraternal benefit societies under section 501(c)(8) of the Internal Revenue Code. Accordingly, the financial resources generated from issuance of insurance products to members directly support the activities of the fraternal membership, including the full range of religious, social, educational, and charitable actions carried out by members acting within their lodges. In examining these not-for-profit activities of fraternal benefit societies, the United States Treasury in a 1993 report found that the vast charitable impact of fraternal benefit societies in communities would be near impossible to continue without the current tax rules in place, stating that “fewer of these charitable goods and services are likely to be provided unless current tax treatment continues.”

Further, Treasury found that societies “do not appear to compete unfairly with taxable insurance companies.” That is, the tax-exempt status of fraternal benefit societies does not appear to provide any “unfair advantage” for the issuance of their insurance products such as life insurance. And, as required by law, fraternals use that benefit to fulfill their charitable, educational, social, and religious purposes in communities across the country.

The Joint Committee on Taxation of the United States Congress estimated that eliminating the current tax rules for fraternal benefit societies would increase revenue by approximately $50 million per year. Such a change in the long-standing treatment of fraternal benefit societies within the tax code would put at risk the $3.8 billion in annual benefits to society from the charitable and volunteer activities of fraternal members. That is, the public investment that supports a fraternal system, which provides annual contributions from direct charity and volunteerism of $2.1 billion per year and another $1.7 billion per year in economic benefit from the social capital created by the activities of fraternal lodges represents a 76-fold return to society from $3.8 billion in annual benefits.

Many of the people who belong to fraternal benefit societies would volunteer and donate to charity even if the fraternal system did not exist. Yet, even if only half of the contributions by fraternal members are assumed to happen because of the organization of and activities through their grassroots system, this still leaves an annual economic impact of $1.9 billion against an annual cost of $50 million for the current tax rules that support fraternal benefit societies, resulting in a 36-fold return on investment to society.

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5 Id. at 2.
6 Joint Committee on Taxation, Options to Improve Tax Compliance and Reform Tax Expenditures 432 (2005)
The fraternal model provides irreplaceable benefits to society. It would be exceedingly difficult for
government or a for-profit corporation to duplicate or replace the activities and contributions made by
fraternal benefit societies. Whereas a government agency may send its employees into a community, a
fraternal benefit society is the community. In responding to emergencies and natural disasters,
government relief agencies often rely on the local knowledge and infrastructure of fraternal benefit
societies. For example, when an explosion occurred at a fertilizer plant in West, Texas, in 2013, the
Knights of Columbus hall in West hosted government relief agencies and other first responders in
addition to being the site of community suppers and meals after the funerals of the fallen. It is simply
not possible for a government agency to have the detailed knowledge and appreciation of local needs to
initiate the types of projects undertaken by fraternals through their grassroots system of lodges on a
daily basis in communities nationwide. The government cannot know which senior citizen's home needs
to be fixed and organize a group of dedicated volunteers to make the repairs. The members of local
fraternal lodges know that what is meaningful in Ohio or Minnesota will be different from what is
needed in Alabama or California—all places where fraternal benefit societies are active. A government
agency cannot devote the same resources to giving young people positive examples of citizenship and
patriotism on par with the Modern Woodmen with their renowned youth speaking program and the
Woodmen of the World in their national activities surrounding Flag Day, when lodge members across
the country organize patriotic programs.

Corporations and other private sector organizations carry out many community-oriented activities and
provide considerable charitable donations in efforts that are to the credit of U.S. businesses and non-
profit organizations. Yet these are still not a substitute for the activities of fraternal benefit societies.
Ultimately, even the most civic-minded corporation must answer to its shareholders and ensure
profitability. This is entirely appropriate. As member-owned, mission-based organizations, fraternal
benefit societies, in contrast, are motivated by the opportunity to help others. People join fraternals
precisely in order to come together with others to help people in need.

As a society, we desire there to be many avenues through which people can help others and a diversity
of forms in which good deeds can be carried out, whether by the government, corporations, or through
other mechanisms. These efforts are all valuable. The system of lodge-based fraternal benefit societies
is unique, however, in matching national resources and organizational expertise with the leveraging
power of an extensive grassroots network that bring local knowledge and dedication of fraternal
members to meet the needs of communities—maximizing these individual efforts many times over.
Moreover, the key role of local members in organizing lodge activities ensures that fraternal benefit
societies consistently contribute to their communities even in down years when they would otherwise
not have any tax liability due to financial losses. Such times are when a for-profit corporation might pull
back charitable giving in the face of slower business and lower profits. In contrast, the efforts of fraternals remain.

Fraternals bring people together for the common good in a way that cannot be easily replicated, since they rely on the energies and enthusiasms of local volunteers sharing a common bond. **In an era in which there are widespread concerns about declining social and civic engagement by Americans, fraternal benefit societies remain bulwarks of social and civic engagement for the common good.** The fraternal model has a unique leveraging power of the resources made available through the 501(c)(8) tax status and the issuance of insurance products to their members to allow members the opportunity to give back and think bigger as they respond to their communities’ needs. By national societies providing seed money, along with an extensive grassroots network and organizational resources, fraternal lodge members are able to magnify their local charitable and volunteer efforts many times over to have a more consistent, positive impact nationwide. The activities by fraternal members then build valuable social capital by serving as a powerful catalyst for stronger community bonds, increased trust, and a wider awareness and interest in working to meet even more local needs, to give even more back. No government or corporate program can offer this benefit to society.

With social capital having an important positive impact on the U.S. economy, the policy question is whether and how the social structures such as fraternal benefit societies that generate beneficial social capital can be encouraged through government actions that pass an associated cost-benefit test for the use of public resources. The activities of fraternal benefit societies appear to easily pass this test, with the direct and indirect positive impacts far exceeding the relatively modest cost to the public that these organizations receive through their tax status. This is a particularly timely consideration in light of the budget sequestration in 2013 which resulted in tight federal, state, and local budgets. This squeeze on public resources leaves a gap to be filled by fraternals and other generators of social capital.

**The system of fraternal benefit societies provides well-targeted and effective help for people and communities in need.** The annual public investment of the tax status for fraternals is far exceeded by the $3.8 billion in annual economic benefits to society, including $2.1 billion in annual direct positive impacts of charitable giving and volunteerism, and another $1.7 billion of value from the improved social capital generated by the activities of fraternal members. This extraordinary 76-fold return on the public investment is made possible by the organizational backbone and resources provided by fraternal benefit societies in bringing together member-volunteers to help others. The fraternal model continues to meet the needs of modern society. As Congress intended, they have been a success story in the United States for more than a century.
References


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