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## Accounts for Fraternal Beneficiary Societies\*

BY F. M. SPEAKMAN, C. P. A.

In presenting a general outline of an accounting system for fraternal beneficiary societies I will assume the case of a society which employs agents for the upbuilding of its local lodges with life insurance as the principal business of the society. In a well organized society of this kind there would be main departments, as follows:

- Agency or field department.
- Policy or certificate department.
- Medical department.
- Accounting department.
- Claim department.
- Investment department.
- Actuarial department.

The first question that presents itself is the handling of the applications for membership received from the agents, which applications are first presented to the medical department for investigation as to the physical fitness of the applicant, a record of approvals and rejections being maintained by the medical department. In the case of a number of societies, however, these data are compiled by the actuarial department, likewise records pertaining to the causes of death and disability. The agents are employed on a basis of a fixed sum per application, salary, commission, and in some cases a combination of all three. The agency or field department maintains records showing the different contracts held by each agent and the compensation allowed.

For the purpose of keeping track of the business and earnings of each agent two books are suggested, preferably loose-leaf, the first book being what might be termed a blotter, in which a page is allotted to each agent with notation as to his contract provisos. The application, upon its receipt from the medical department, in event of the application being approved, is given a number, said number corresponding with the number of the policy or certificate that is issued. The rejected application should likewise be given a number and be entered on the blotter

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under the agent's account, in red ink, or by other method to readily distinguish it from the applications which have been approved. This blotter should be ruled to show information as follows:

- Date approved or rejected.
- Name.
- Location.
- Lodge number.
- Policy or certificate number.
- Date issued.
- Age.
- Amount.
- Premium rate.
- Columns for application fees charged and paid.
- A number of columns for entering commissions as they accrue.

This record will then give a complete list of the applications received from each agent with all the information in reference to each application that is necessary in handling the agent's account satisfactorily. Further, this record is totaled monthly and carried to the agent's ledger account, which should likewise be in loose-leaf form, and should contain information somewhat as follows:

- Date.
- Number of applications.
- Amount of insurance.
- Gross commission.
- Loss by lapses.
- Commissions earned.
- Charges against commission.
- Probable credit.
- Application fees—debt and credit columns.
- Several columns for cash paid and for miscellaneous items.

For payments made by the applicant, there would be an entry made in the blotter and the date of its receipt.

We will assume that the contract of this particular agent provides for the payment of commission of 50 per cent of the first year's payments. The total commission that would be due under the contract would be computed and credited in the agent's ledger account under the head of "gross commissions." The agent's interest in the premiums paid would be credited in the agent's ledger in the column headed "commissions earned." The column headed "loss by lapses" would contain that portion of the agent's commission which had been previously credited in the gross commission column, with all hope of its actual accrual to the credit of the agent lost by reason of the lapse. Any pay-

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ments made to the agent would be charged under an appropriate heading, whether for salary, advance, commission or expenses, and any portion of those payments which were a charge against the accruing commission of the agent would be entered in the column headed "charges against commissions." The column "over-draft" would represent the excess of charges over actual commissions earned. The item "probable credit" or, as we might term it, "possible future earnings," would be the premiums from the applicant due in the future and in which the agent has an interest.

This method permits the management to see at any time the amount of business being produced by the agent, the proportion of rejected applications, the solidity of the business secured, the earning power of the agent under his contract; and to keep in accessible form the overdrafts made by the agent and the possible future credits to protect such overdrafts or excess payments above commissions actually accrued—in fact it gives instant information as to the desirability of keeping any particular agent on the pay-roll.

One feature of fraternal organizations is that the premiums are usually paid monthly, the collections being made by a duly authorized officer of the local lodge who keeps records showing the payments received from each member and who furnishes the home office with a report for each period, showing the collections made and remitting therewith the amount of such collections. This means that any system of members' accounts must first take into consideration a group of members comprising the local lodge. A system best adapted to this is that of cards containing the name of each member and all necessary facts in relation to the policy or certificate held by him. With the membership cards for each lodge there would be what is termed a base card, which would be headed by months and would be ruled to provide entries for about four years, a record of the receipts from the particular lodge being kept on such base card. The monthly report received from the officer of the local lodge may be in two forms—a form containing a complete list of the names of the members paying, with divisions for listing those who lapsed, died, transferred to other lodges, or were reinstated during the particular period.

Another form of report is known as a base report. This

report would commence with the total premiums due from that lodge the previous period and show as additions or deductions the changes in membership that occurred during the month or period. With the use of a card system in the home office the report requiring a complete list of names of the individual members each month is preferable for reasons that will doubtless appear obvious. In a card system of this kind the individual card of the member is not marked in any way, except when a change occurs. At the end of the month the card files would contain a record of the policies that were in force, or those that had lapsed, died, etc. having been removed from the file when verifying the reports of the local lodge and proper notation placed on each card; so that any given policy or certificate is known to be in force by reason of its being in what might be termed the "live file" and the absence of notations thereon as to lapses, etc.

There has been so much said and so many ably written articles upon the advisability of a card system for the keeping of the membership records that it is hardly worth while to go further into this phase of the system. In practically all of the leading societies the card system, in so far as the membership or lodge records are concerned, is used. The cards constituting the lodge record do not, however, enable one to readily obtain therefrom the statistical information required, even though they do simplify the work of the accounting department; this for the reason that it is not convenient or desirable to even temporarily destroy the arrangement of these cards.

In speaking of statistical information I might state that these data would be handled perhaps in their entirety by the actuarial department. To secure the information in a well regulated office, and this applies to all societies, whether their membership be numbered in the hundreds or thousands, a system of cards independent and apart from the regular card system or book-record used for local lodges should be maintained. These cards should contain all the information in regard to a particular certificate, the essential information being somewhat as follows:

Number of certificate.  
Amount.  
Kind.  
Date of birth.  
Date of admission.  
Age at date of admission.

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Rate or amount of payment, whether monthly, quarterly, semi-annually or annually.

Space for the recording of terminations either by death or lapse.

Any other information that may be desirable for statistical purposes.

These cards are written at the time the policy or certificate is issued, or when the membership card is made out, or when the member's name is placed upon the lodge record. These cards, as they are written, are retained by the policy or certificate department until the end of the month or any other convenient closing period and are then sorted and a record made of the number of issues, amount, etc., grouped as to states. These figures are then added to the record at the close of the preceding month and the cards filed numerically in a permanent file, the permanent file being divided as to kinds or forms of policies issued. During the month the reports containing information as to lapses, revivals, etc., as received from the local lodges, are verified. Those reports which show a fluctuation in membership are taken and the cards corresponding to those fluctuations are removed from the permanent file to a separate division, the results being tabulated at each closing period, as in the case of new issues.

This so far will give a complete current membership record showing the amount of insurance in force, the number of policies, the number of issues, amount of issues, number of deaths, amount of claims, number of lapses and the amount thereof, all classified as to states. The permanent file of policies in force is arranged as to kinds of policies and the divisions are arranged numerically in accordance with the policy numbers. The cards will likewise be in chronological order, guide cards being inserted for the business of each year, the lapses and deaths being arranged in practically the same manner. In the larger offices subsidiary records should be kept showing a classification of certificates by kind of certificate and also by year and age at entry; for example:

We have determined from our record the number of certificates and the amount of insurance issued during a particular year for each kind of certificate. A sheet is made up and this particular form of certificate indexed according to year and age at date of issue. We will suppose that during a given year there were issued 1,000 certificates at age 27, with protection or insurance represented by these certificates aggregating \$1,000,000.

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We have then as a base for the future the above data, from which the terminations would be deducted as they occur, the remainder representing the number of certificates and amount of insurance still in force that were issued during that particular year on applicants who were at that time aged 27. In the smaller offices such a record would not be necessary as the age distribution can with much less work be secured by sorting the cards by ages at the time the age data were required. We now have a record from which can be readily secured any information that may be necessary for the purpose of making a valuation, or for computing the death rate of the society and comparing the same with any table of mortality which may be selected.

The principal feature, in fact the very purpose of a fraternal beneficiary society or insurance company, is the payment of claims. The funds with which to make any and all payments are, of course, collected from the membership and such other sums as may be added by reason of investments, etc. The business of insurance is, therefore, what might be termed a cash business, and the general books need not consist of more than a cash book and ledger with suitable subsidiary records for the recording of receipts and disbursements. It is essential that columnar books be used which will show all sources of receipts and a general classification of disbursements, the classification for both receipts and disbursements following closely the general classification required by various state departments. Each column in both the receipt and disbursement books should be given a number, which number will denote a ledger account for all items appearing in that particular column. To illustrate this more fully:

We have in the disbursement book a column for investments, and let us number this column "20." A column will likewise appear in the receipt book, headed "Investments Repaid," which column will likewise be numbered 20. Investments as appearing in the general ledger may consist of perhaps 15 accounts; in other words a classification of investments. Each account in the ledger pertaining to investments will likewise be numbered 20, meaning that all items appearing in ledger account bearing the number 20 are posted from columns 20 appearing in either the receipt or disbursement books. The advantage of this is in localizing possible errors, and it enables one to verify each ledger

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account by comparison with the totals appearing in the receipt and disbursements records.

We recognize the fact that at least 95 per cent of the items entered in the receipt book represent payments received from the local lodges; therefore it is better to have what might be termed a "subsidiary receipt book" showing in one column the receipts from lodges, which book is totaled daily and the sum daily transferred to the general receipt book. This subsidiary book would be practically the same as a record used by the receiving teller of a bank for recording individual deposits, the sub-divisions of premium receipts for the several funds of the organization being made at the end of the month or at the regular closing period.

In connection with the subsidiary receipt book it is desirable to have another record arranged by lodges with columns for each month or settlement period throughout the year. In practically all organizations of this kind each lodge is given a number. The number of each lodge would be listed consecutively in this record and the receipts from each lodge would be posted in this record in the column headed for the month during which received. The entries for each month or period would be totaled, which total should agree with the total receipts from lodges as appearing in the general cash book or ledger account. At the end of the year the receipts from each lodge would be ascertained by a cross addition and the amount of receipts from each state determined directly upon the close of the record for the year. Another purpose of this record is for that of audit and a verification of premium income.

The manner of making payments varies in each organization, but as the payments are made either on account of claims or expenses there is no reason why the same system should not be applicable to all organizations, barring any peculiarities in the by-laws. We find that in the majority of organizations two or more officers sign all checks, the cumbersome order system in vogue in a great number of societies not being necessary. In fact the order system is a useless waste of time and energy which could well be applied in some other direction.

For making all payments, whether for benefits or expenses, the voucher system in a modified form is rapidly supplanting the former methods as it obviates the necessity of securing a receipt from the party to whom the check is given. Furthermore, you



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are sure of getting a receipt in the form of the cancelled voucher after the payee receives the money. Any number of voucher forms could be printed to conform to the different payments to be made, for example: You are paying a death claim. The voucher would contain a release of the policy or certificate on which the claim was based. These check vouchers as they are returned from the bank give you a receipt stating the purpose of the payment; further, all the vouchers are numbered consecutively, and being of uniform size can readily be filed. All vouchers or checks are entered in the disbursement record in numerical order, a column being provided for the numbers thereof. Where items are numerous and a separate claim department maintained it is well to have a subsidiary disbursing book entering therein all payments for claims, columns being provided for a classification of the kind of claims. The totals of this subsidiary disbursement record are carried to the general disbursement record.

The records in the claim department will of course depend largely upon the nature of the claims and the method of payment, whether the amount of the claim be payable in one sum or over a period of years.

The society receives notice of a claim, said notice being either on a printed form provided by the society or any other form that is desired by the person sending in the notice. Data in regard to the particular policy under which the claim is made are secured and the claim given a number, a record thereof being maintained in a book especially ruled for the purpose and having columns as follows:

Claim number.  
Policy-holder.  
Policy number.  
Lodge number.  
State.  
Date notice received.  
Date proofs received.  
Face amount of policy.  
Date paid.  
How paid.  
Amount of scaling if any.  
Amount paid.  
Remarks column.

Twelve distribution columns—one for each month—the amount paid being inserted in the column corresponding to the

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month in which payment is made. In case the policy was payable in monthly installments there would of course appear a payment during each month throughout the year and the balance of the claim remaining unpaid at the end of any particular time being extended in a balance column. From this record the number of claims, the amount incurred, the number and amount paid, saved by scaling, and the number and amount of claims unpaid, are ascertained simply by addition of the various columns. You have also an itemized record of the monthly payments made on account of claims, the totals of which agree with the book of claim disbursements, the general cash book and the general ledger accounts.

A summary of claims incurred and paid by states can readily be secured at any time by simply listing the various items for each state, although in a larger organization, where a great number of claims are handled, a card record of claims incurred and paid is advantageous as these cards can be sorted and any statistical information desired obtained therefrom.

The principal items of investment for fraternal societies are, of course, mortgages on real estate and various forms of bonds, although there may be other investments as stocks, real estate, bills receivable, etc. In the general receipt and disbursement books, previously described, there were columns provided for investments, the column headed "investments" in the disbursement book containing all disbursements made for an investment purpose and the individual items charged to the appropriate investment account in the general ledger. In the column appearing in the receipt book headed "investments repaid" are entered all items of investment retired or reduced in amount and the individual items credited to the appropriate investment account in the general ledger, leaving the general ledger accounts for investments to serve as control accounts for the subsidiary investment ledgers.

The investment ledger or ledgers should contain an individual record of each mortgage loan or class of security. In the case of the mortgage full date would be given relative thereto, with appropriate debit and credit columns for interest and payments on principal, tax receipts submitted for inspection and the amount and expiration dates of fire insurance held. A trial balance of the subsidiary ledger as to mortgages, for example,

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would agree with the control account for this particular class of investments, as shown in the general ledger. Appropriate accounts for other forms of investments are maintained in the same subsidiary ledger or ledgers, the total of the items therein agreeing with the balances shown by the respective control accounts.

In respect of bonds where the amortized method is used the amortization accounts may be maintained for each class of bonds in the subsidiary ledger and the book value of the bonds, as shown in the general ledger, changed from time to time, as determined from the amortization account. For the collection of interest, etc., a card record is maintained, arranged by interest dates. As the interest payment is received the card is moved ahead to the next interest date, new cards being added for new investments, and the cards removed for those investments which are retired.

In connection with investment, there is one other item to which very little attention is given, except when comparing the annual statement, and that is the item of accrued interest. At the cost of little time a current record of accrued interest may be maintained by having a summary sheet of investments at the various rates of interest. Ascertain and make a record of the interest due and accrued on a given date and either daily or monthly ascertain the amount of interest accruing on the several investments and add same to the former amount. From the sum thereof deduct the interest received and the balance will represent the interest due and accrued at the end of the day or month, as the case may be.

We recognize that our organizations operate under by-laws which present certain problems in accounting that must be worked out separately for each organization. Each has peculiarities of its own. Therefore in so far as detail is concerned it would be impossible to outline a system exactly suited to all. There are, however, essential features which are common to all, and it seems to me that the system outlined describes briefly but in concise form a simplified system of accounts which with little modification would meet the present-day requirements of nearly every society. Certainly it might be used as the basis of a uniform system among our societies in case the subject is regarded of sufficient importance to work in that direction.