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How Insurance Plan of Club Financing Works

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When club officials are told that a club can borrow the money it needs, can take 33 years in which to pay the debt and that it will never have to pay interest on the money borrowed their attitude is naturally one of considerable skepticism.

When they are further told that the members who will be asked to lend the money that the club needs will receive a fixed profit of 50 per cent and that they will have better protection than the bank would under similar circumstances there is an immediate demand to know where the catch is.

There is no catch.

The above benefits and others are possible through the proper use of life insurance.

Clubs usually suppose that there were only two ways by which an organization could be financed either at the time of its inception or at the time an extensive building program is being embarked upon or when it has a burdensome debt that has to be refinanced. However, in recent years, a third plan has been rapidly gaining favor as clubs have become familiar with the advantages that it has.

In order to start the discussion of club financing in an orderly fashion let us analyze the advantages and disadvantages of the various methods.

The first method that usually comes up for consideration is that of an assessment; this plan has many advantages if the club has a wealthy membership. It means that each member is assessed an equal amount with every other member. The money comes in promptly or your member is dropped.

An assessment is a forced gift and the giver is further penalized by the Federal tax of 20 per cent. The other disadvantage is the fact the membership in every organization changes radically every 10 years. This means that under an assessment, a member is paying for a club that an entirely different group will be enjoying 10 years hence. This hardly seems an equitable way of doing.

The next plan is to borrow the money through the sale of bonds or from some bank or lending institution. This is the easiest way next to assessing. Under this plan the club secures its money in a lump and then is through with the matter. All it has to do now is to add a sufficient amount to its annual budget to enable it to pay back the plus 4 or 5 per cent interest. This plan is the most expensive way to raise money.

At the same time it is the most burdensome. Let us say that club borrows $100,000 from the bank. As a rule it must amortize the debt over not more than 20 years and let's say pay 5 per cent interest. This means that the first year it must add $10,000 to its budget to cover interest and principal. If the debt is to be amortized over a shorter period then a larger sum must be added.

If the debt is to be amortized over 20 years, it means that the club will pay out at least 50 per cent of the amount borrowed or $50,000, if the interest rate is 5 per cent. That is a large sum to pay out for the privilege of borrowing this amount of money when it can be avoided.

One of the important clubs in the country was formed in the early 90's with a very large debt of about $1,600,000. Since that time it is estimated that the club has paid out more than $3,000,000 in interest and still owes the debt.

If the money is raised through the sale of bonds, it means that with most members their subscription is looked upon largely as a gift, for their bonds have no market value and most clubs do not set up any kind of sinking fund for them. Of course, this is not the case with all clubs but does apply to most. If the purchase of bonds is made mandatory, then the 20% Federal tax must be added.

The next plan to be considered is the insurance plan that has been coming into favor in recent years. It eliminates the burden of interest; it makes it possible to discount the principal of the debt; it offers the membership a profitable investment.

Under certain conditions, this investment is income tax free, estate, inheritance and gift tax free and it cannot be levied upon by creditors. The drain upon the club's budget is just about half that of a bank loan.

There are few plans that offer so many advantages to both the club and the membership. This plan of a New England insurance company was developed about 25 years ago, and in that time has been used successfully by about every kind of a non-profit institution.

The insurance plan is an adaptation of a plan or principle that is as old as insurance and that is the principle of an insured loan. Under an insured loan, life insurance is used to provide the money whereby the debt is paid in the case of the unexpected death of the borrower.

For the purpose of club financing, insurance is used to accumulate the money so that the club can repay the debt with a profit of 50 per cent at the time of the maturity of the policy or in case of the prior death of the insured. At the same time, the club has the assurance that the money that it pays out in premiums will never amount to more than approximately the amount borrowed, thus eliminating necessity of having to pay interest on the debt.

Steps in the Plan

The plan operates as follows: the first step is for the club to appoint from its membership three trustees as is done with any bond issues. These trustees enter into a Trust Agreement that specifies the manner in which the money can be used, that it can be used only for capital purposes and to cover the expense of the campaign.

The next step for the club is to canvass its membership asking that they lend the club the money that it needs and after all, if your membership does not have enough faith in the club and its future to lend it the money that it needs why should they expect a bank to do so.

They can subscribe in amounts as low as $333 on up as far as they may want to go. They can pay for their subscription either in cash at a small discount or over a 5 year period. This money that the membership subscribes is paid into the hands of the Trustees, who in turn lend it to the club under the terms of the Trust Agreement. In return for this loan, the club gives the Trustees a mortgage on the club property.

The next step on the part of the club is to take out a 35 year Endowment Insurance policy on the life of the subscriber or on the life of any one whom he may designate for 50 per cent more than the amount that the subscriber has loaned. This insurance policy is the club's method of accumulating the money that it needs in order to pay back the full amount that it has borrowed plus a profit of 50 per cent, either at the time of the maturity of the policy or in case of the prior death of the insured.

The club, on its part, agrees to pay all of the premiums on this policy. Under this plan the club is assured that the premiums, over the 33 years that they are payable, will never amount to approximately more than the amount borrowed thus wiping out the item of interest on this debt.

With an average age of the insured being 40, the premiums that the club agrees to pay will average 3 per cent of the amount borrowed though the insurance in force will be 50 per cent greater. This means that club will never pay out in premiums more than approximately the amount borrowed.

Under this plan there is no medical examination required providing the insured is in gooa health though the company reserves the right to ask for an examination. This happens only in a limited number of cases. The insurance can be placed on persons between the age of 10 and 60. It is the experience that in the case of those over 60 that they place the insurance on some younger member of the family in order to escape estate and inheritance taxes.

When a member invests in the club mortgage under the insurance plan, he has a safer investment than the bank would have if it had loaned the money. If the bank had loaned the club the money and the club had to go into bankruptcy so that the bank had to foreclose then the only money that it would receive would be that realized from the sale of the property.

Under the insurance plan, the member who had loaned the club money would not only get what was realized from the sale of the property, but would also have the cash value that had been built up in his insurance policy.

To illustrate the operation of this plan let us say that John Jones had loaned the club $1,000 and that a year after this he got into an auto accident and was killed. He had made his wife the beneficiary of his insurance policy. Mrs. Jones would then have two things that the club wanted. One would be the ownership of a pro rata share of the club's mortgage and the

SAILORS' SNUG HARBOR

Sail Ho course, at U.S. Naval Training Center, San Diego, Calif., has seen many pros who were gobs during the war, sailing over its turf. This is the 180 yd. 4th. Mike Vesock has managed the course since its first 3 holes were opened in 1927. The course now is 9 holes, 1681 yds., par 30. Pro is "Tex" Reaser of Mission Valley, San Diego.

other would be an insurance policy for $1,500.

Upon notification of John's death, the insurance company would send the Trustees a check for $1,500, the face value of John's insurance policy. The Trustees would hold this check until Mrs. Jones came in and cancelled that part of the mortgage and surrendered the insurance policy. At that time she would get back the $1,000 that John had loaned the club plus $500. At the same time a $1,000 section of the club's mortgage would be retired. As John had only lived a year after making the loan, it only cost the club one year's premium to get rid of thousand dollars of its debts and next year it will have one less premium to pay.

One of the most interesting things about this plan is its extreme flexibility. There is hardly a situation that might come up in the future that is not covered in a most logical manner. For instance many clubs do not want to tie themselves up to as long as 33 years. This is, of course, a reasonable objection. The answer is that it is not necessary. The club has the privilege of taking 33 years in which to pay the debt if it so desires or if circumstances require it. As with any term insurance, it can pay the premiums up in full as soon as it wants to do so. Using a 20 year pay life insurance policy as an illustration, the insured can take the full 20 years in which to pay the premium or if he can pay them up in full in a shorter period, say 5 years or so, the company will give him a discount.

The same thing applies with this insurance plan. The Piqua (Ohio) CC raised $31,000 under this plan in order to refinance a burdensome debt. Shortly after this campaign the club prospered and was able to pay up all of the premiums on the insurance at a total cost to the club of only $27,125.44. Then the club could turn over to its subscribers a fully paid up insurance policy. That act automatically cancelled the debt.

Chaney Heads Managers 1951 Convention Committee

Royce Chaney, Northwood CC, Dallas, Tex., has been named gen. chmn. for the 1951 convention of the Club Managers' Assn. of America which will be held at Dallas, Feb. 4-7. John Outland, Dallas CC, has been made sec.-treas. of the convention committee.

Plans for the national convention were outlined at a meeting of Texas club managers held at Abilene CC and committee heads appointed.

It is planned to make the educational program of the convention the most complete the CMAA ever has presented.