
With 'Daily+4,' Forethought VA gets creative

By Editorial Staff Thu, Jun 12, 2014

With the Daily +4, each day that the contract value reaches a new high, the withdrawal base steps up to capture the new value. At the end of the year, a 4% bonus is added to the current withdrawal base on top of the growth from daily step-ups.

A new addition to the ForeRetirement variable annuity suite from Forethought Life Insurance Company, a subsidiary of Global Atlantic Financial Group Ltd, offers an income benefit with two roll-up options and three death benefit options.

The "Daily 6" income option, which Forethought launched under the name Daily Lock on its first ForeRetirement VA contract in early 2013, features a 6% annual deferral bonus to the benefit base or, if larger, the highest daily step-up in the value of the benefit base, in each of the first 10 contract years (or until the first withdrawal, if earlier).

The "Daily +4" income option, which is new, features a 4% simple annual deferral bonus to the benefit base *and* a daily market-driven step-up, if the growth of the account value generates one. The step-up is dollar-for-dollar and gains are credited even if the account value high doesn't exceed the benefit base.

For example, if the purchase premium was \$100,000 and the account value hits a high water market of \$105,000 in the first year, the new benefit base would be \$109,000 (\$100,000 plus \$5,000 plus a \$4,000 deferral bonus). In year two, if the account value hits a new daily high of \$107,000, the benefit base at the end of the year would be \$115,000 (\$109,000 plus \$2,000—the change from \$105,000 to \$107,000—plus a \$4,000 deferral bonus).

"That's unique, and it's been incredibly well-received," said Robert Arena, president of Forethought's annuity business, in an interview yesterday. [Two years ago, the income rider of a Security Benefit fixed index annuity used a "stacking" strategy that provided a 4% annual roll-up plus whatever the contract earned from fixed income investments or options on an equity index.]

With the Daily 6 option, every day that the contract value exceeds the current benefit base, the benefit base locks in to the new high. If the markets drive the benefit base up by more than 6%, the benefit base will lock in the higher amount. But the benefit base goes up by at least 6% per year for the first 10 years, barring withdrawals.

With the Daily +4 option, each day that the contract value reaches a new high, the withdrawal base steps up to capture the new value. At the end of the year, a 4% bonus is added to the current withdrawal base on top of the growth achieved by the daily step-ups.

"Instead of applying either a fixed deferral credit or performance-based increases, Daily +4 credits both," the company said in a release. "A 4% annual deferral credit applies on top of daily, performance-driven growth potential, or step-ups, for income purposes."

"Daily 6 offers more downside protection with a higher deferral credit while the additive nature of Daily +4 provides greater growth potential when performance is strong," said Paula Nelson, president of Forethought Distributors, LLC, the underwriting broker/dealer, in the release.

Contract owners who elect either income rider must invest in the available managed-volatility investment options, said Arena. There are nine managed-risk funds, eight offered through Forethought Variable Insurance Trusts and one from American Funds. All volatility overlays are provided by Milliman. The contract offers more than 50 investment choices in all. Fund expense ratios range from 0.58% to 2.84% per year, according to the prospectus. There's currently an additional five to 15 basis point charge for investments in certain investment options.

ForeRetirement variable annuities are offered in B shares (seven-year surrender period with 8.5% charge in first year), C shares (no surrender charges) and L shares (four-year surrender period with 8% charge in first year). They're sold through over 100 national and regional financial institutions, including wirehouses, banks and independent broker-dealers. ForeRetirement variable annuities are available in all states except New York.

The combined mortality and expense risk and administrative fee is 0.65% for the B share, 1.65% for the C share and 1.10% for the L share contract. On the B and L shares, there's a 0.50% annual fee for premium invested in options other than the fixed account. The minimum initial premiums are \$5,000 for qualified contracts and \$10,000 for non-qualified. There's a \$50 per year maintenance fee for contracts valued at \$50,000 or less on a contract anniversary.

The annual expense ratio for either income rider is 1.25%. The annual percentage payout rates of the benefit base for the income riders (single life) are 4% from age 59½ to age 64, 5% from 65 to 84 and 6% from 85 onward. The rates for joint life contracts are a half-percent lower for each age bracket.

There are three death benefit options: Legacy Lock II (85 basis points with the income rider, 115 basis points without 125, 61-65), Return of Premium (15 basis points) and Maximum Daily Value (45 basis points). All-in annual costs for the B share, including insurance and investment fees, including an income rider and return-of-premium death benefit, would be about 3%.

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