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Forethought Warns Customers: Expect Cuts in Growth Payments

Company Introducing Bonus Plan for Loyal Customers

Many funeral directors took the news hard: Forethought Financial Group plans to lower discretionary growth payments come Jan. 1, and the move will probably be significant.

As the news spreads throughout the profession, the rumors are running amok. Some funeral directors think they will be paid 0 percent growth on existing policies. Others are under the impression that those who exclusively write Forethought policies will receive better discretionary growth payments. And of course, many people are wondering that if this is true, could it even be legal?

Those fears are false, John Graf, president and chief executive officer of Forethought Financial Group, told the *Insider* in an exclusive telephone interview. “We will not be taking rates down to zero,” he says. “We will continue to credit growth the same for everyone, but unlike prior practice, we will have a more dramatic move downward, which is a once-in-a-lifetime reaction to what’s happened in the investment markets.”

When pressed on how significant the decrease would be, Graf says, “We’ve never dropped rates more in a quarter than 25 basis points. And my guess is that it will be more than 25 basis points – almost for sure – and likely to be less than 125 basis points.” He adds, “The caveat I would tell you is that in this environment, you just don’t know.”

As far as confusion among funeral directors, much of it has to do with Forethought’s new PartnerShare program, which the company has outlined in bits and pieces. The new program will reward businesses that do business exclusively with Forethought by paying them an annual bonus of 0.25 percent to 1 percent based on the size of their books. So, a firm that has \$5 million in Forethought life insurance policies could receive as much as \$50,000 per year as a bonus.

Details on Encore, PartnerShare and Other Products

Forethought’s “Encore” product will not undergo any major changes, except the level of discretionary growth payouts.

Below is a summary of discretionary growth rates for Forethought products over the past four quarters.

Generic Products	October 08	July 08	April 08	January 08
Maxima (Generic, AR, WA)	1.45%	1.70%	1.85%	2%
CoveragePlus	1.60%	1.85%	2%	2.50%
Encore - Medium	2.10%	2.35%	2.50%	2.60%
Encore – Low	0.60%	0.85%	1%	1.30%
Encore – High	2.95%	3.20%	3.35%	3.5%
Maxima (NJ)	1.60%	1.85%	2%	2%

As of now, the company isn’t publicly saying exactly how much rates will go down, although as noted earlier, Graf believes it will be more than 25 basis points and less than 125. “What will happen is that on Dec. 15 or 20th, we will look at the investment climate,” Graf says. “And we will come up with a rate; my hope is that from now to Dec. 15, the bond market and capital market will get back and running. We will declare a growth rate on Jan. 1 for everyone.”

The word throughout the funeral profession, however, is that the Maxima payout may go to as low as 0.45 percent in some cases, and this is supported by documents obtained by the *Insider*. Graf notes, however, that rates have not been finalized.

But consider a likely scenario being outlined by some professionals: A funeral director with Maxima policies who had been getting paid 1.45 percent is approached by Forethought and told that now, policy holders will get 0.45 percent under the new crediting rate on the product. To offset the 1 percent loss to the funeral home, however, the company offers a 0.55 percent PartnerShare payment that can be paid in four quarterly installments. To get this, however, the funeral home will have to write policies exclusively from Forethought. Even after adding the discretionary growth payment and the bonus, it will still be 0.45 percent less than the original 1.45 percent.

It gets worse. The bonus could probably be taxable. So the funeral home that fulfilled the preneed contract that was getting 1.45 percent tax free now is getting only 1 percent, and more than half of that is taxable. Graf says it would depend on how someone handles the bonus to determine its taxability. He also notes that funeral homes never directly own a policy, and in almost 18 percent of cases, the funeral is fulfilled elsewhere because people move around.

Still, Forethought realizes times are tough, and the launch of the PartnerShare program is meant to give back something to funeral professionals who are struggling to deal with the financial crisis, Graf says. Forethought devised the program over the last 12 months. “What drove it was the inevitability of having to drop the growth rates and the stress I knew it would put on our clients,” Graf says. “If you’ve been a consistent partner, consistently working with us, looking at new services and willing to work with us on the new model, we realize that all your best intentions won’t overcome the shortfall in the short run. So we will try to help compensate you as a way to bridge this gap.”

Forethought does want something in return, however. “We want their ongoing commitment to look at products