



Prosperity Life Group®

Agent Annuity Suitability Guide



S.USA Life Insurance Company, Inc.
Member Company of Prosperity Life Group†

The Prosperity Life Group Agent Annuity Suitability Guide is designed to help producers understand our suitability and Best Interest Review Process, which ensures each product sold will effectively address a client's financial situation, insurance needs, and financial objectives based on their suitability profile information. Producers will also gain a greater understanding of their own obligations under the NAIC Best Interest Model when making recommendations to clients.

The Prosperity Life Group Agent Suitability Guide covers the following topics:



Responsibilities of the Producer —
Understanding your obligations



Annuity Suitability Profile



Liquidity Guidelines



Replacement Guidelines



Prosperity Best Interest Review Process



What is likely to be declined



Responsibilities of the Producer — Understanding Your Obligations

When making a recommendation of an annuity, the producer must act in the best interest of the consumer under the circumstances known at the time the recommendation is made, without placing the producer's or the insurer's financial interest ahead of the customer's interest.

A producer has acted in the best interest of the customer if they have satisfied the following four obligations:

Care Obligation:

- Know the consumer's financial situation, insurance needs, and financial objectives
- Understand the available options after making a reasonable inquiry into options available to the producer
- Have a reasonable basis to believe the recommended option effectively addresses the consumer's financial situation, insurance needs, and financial objectives over the life of the product, as evaluated in light of the suitability profile information
- Communicate the basis or bases of the recommendation

Disclosure Obligation:

- Prior to the recommendation, the producer shall prominently disclose to the consumer on form PLDS-2410-ADA (Appendix A):
 - » A description of the scope and terms of the relationship with the consumer and the role of the producer in the transaction
 - » An affirmative statement on whether the producer is licensed and authorized to sell the following products: Fixed Annuities, Fixed Indexed Annuities, Variable Annuities, Life Insurance, Mutual Funds, Stocks and Bonds, and Certificates of Deposit
 - » An affirmative statement describing the insurers the producer is authorized, contracted (or appointed), or otherwise able to sell insurance products for, using the following descriptions:
 - » From one insurer
 - » From two or more insurers
 - » From two or more insurers although primarily contracted with one insurer
 - » A description of the sources and types of cash compensation and non-cash compensation to be received by the producer, including whether the producer is to be compensated for the sale of a recommended annuity by commission as part of premium or other remuneration received from the insurer, intermediary or other producer or by fee as a result of a contract for advice or consulting services
 - » A notice of the consumer's right to request additional information regarding cash compensation
- Upon request of the consumer or the consumer's designated representative, the producer shall disclose a reasonable estimate of the amount of cash compensation to be received by the producer and whether the cash compensation is a one-time or multiple occurrence amount. If there is a multiple occurrence amount, the frequency and amount of the occurrence will be discussed
- Prior to or at the time of the recommendation, the producer shall have a reasonable basis to believe the consumer has been informed of various features of the annuity, such as:
 - » Potential surrender period and surrender charge
 - » Potential tax penalty if the consumer sells, exchanges, surrenders, or annuitizes the annuity
 - » Any annual fees, potential charges for and features of riders or other options of the annuity
 - » Limitations on interest returns
 - » Potential changes in non-guaranteed elements of the annuity
 - » Insurance and investment components and market risk

Conflict of Interest Obligation:

- A producer shall identify and avoid, or reasonably manage and disclose material conflicts of interest, including material conflicts of interest related to an ownership interest

Documentation Obligation:

- A producer shall at the time of the recommendation make a written record of any recommendation and the basis for the recommendation



When making a recommendation, the producer must consider all advantages and disadvantages of the products and determine what makes the most sense for the customer based on their financial situation, insurance needs, and financial objectives.

The producer must have a reasonable basis to believe the consumer would benefit from certain features of the annuity, such as annuitization, death or living benefit, or other insurance-related feature.

Please note that producers must complete all required training including any applicable state mandated training and product specific training prior to making a recommendation.

Annuity Suitability Profile

Prosperity Life Group has created the Annuity Suitability Profile to assist the producer in gathering relevant customer information (age, annual income, financial situation and needs, financial experience, insurance needs, financial objectives, the intended use of the annuity, financial time horizon, existing assets, liquidity needs, liquid net worth, risk tolerance, source of funds, and tax status) to be used in making a best interest determination. This form must be completed with the customer prior to or at the time of the sale and is required with all annuity applications. The information provided on the Annuity Suitability Profile must be accurate, completed in its entirety, and signed by both the customer(s) and the producer.

Some things to keep in mind when completing the Annuity Suitability Profile:

- When considering the financial resources used to purchase the annuity, the client must understand any potential surrender charges, tax implications, and penalties that can be incurred by using these resources.
- Income and expenses should be listed as annual figures. Annual disposable household income must be equal to annual income less annual expenses.
- Liquid assets are those that readily convert to cash without withdrawal charges or tax penalties. Total liquid assets must equal the total of all individual liquid assets listed in section 7.
- Non liquid assets are those that cannot be readily converted to cash. Total non-liquid assets must equal the sum of all individual non-liquid assets listed in section 7.
- Total assets are the sum of both liquid and non-liquid assets
- Total net worth must equal the total assets less the total liabilities listed in section 7
- Identify both advantages and disadvantages of the proposed annuities
- Must document the basis for the recommendation
- The financial information section on page 3 of the Suitability Profile is designed to capture the client's financial circumstances after the purchase of the annuity. The premium amount should be included in amount listed for "Annuities subject to surrender penalties" and not listed in the asset category where the money is coming from.

Liquidity Guidelines

A key factor in determining suitability is liquidity. When evaluating liquidity, Prosperity Life Group considers the amount of liquid assets remaining after the transaction, the value of the proposed annuity purchase, the customer's income and expenses, the length of the surrender charge period, and any riders selected. Prosperity Life Group is particularly concerned when an annuity transaction brings the total value invested in annuities to greater than 50% of the customer's assets.

Some important considerations include, but are not limited to:

- Will the client have sufficient liquid assets in reserve in the event of an unforeseen liquidity need?
- Does the client's income exceed their expenses? If so, how much disposable income does the customer have?
- Does the client expect changes to income or expenses?
- What other financial products and investments does the client have?
- Can other investments be accessed without incurring a fee or tax penalties?
- After purchase, how many years of living expenses can be covered by Liquid Assets? Younger clients with higher levels of disposable income should have at least six months of living expenses. Older clients with lower levels of disposable income should have at least 18 months of living expenses.

Replacement Guidelines

If a recommendation involves the replacement of an existing annuity or annuities, there must be clear documentation that the replacing product would substantially benefit the consumer in comparison to the replaced product over the life of the product on the Annuity Suitability Profile.

Important considerations include:

- Are there surrender charges or bonus recapture on the existing annuity? If yes, how much time remains in the surrender charge/bonus recapture schedule?
- Does the existing annuity have a living benefit or an optional living benefit?
- How will the commencement of a new surrender charge period affect the client's financial objectives within their stated timeframe?
- Are there riders on the existing annuity that are not available on the proposed annuity?
- How do the guaranteed and current crediting rates compare?
- Does the product being replaced have an enhanced death benefit?
- Is there a clear reason to enter a new surrender charge period?
- If exchanging from one type of annuity (Fixed Deferred, Index Deferred, Variable, etc.) to another, how does the new product better meet the client's goals?
- Will a Market Value Adjustment apply upon surrender of the existing Annuity? If yes, what is dollar amount and is it positive or negative?
- Has the customer had another annuity exchange or replacement and, in particular, an exchange or replacement within the last 60 months?

Prosperity Life Group Best Interest Review Process

In accordance with state regulations and the National Association of Insurance Commissioners (NAIC) Suitability in Annuity Transactions Model Regulation, Prosperity Life Group has established a system to supervise recommendations and ensure that all transactions to purchase our annuities are in the best interest of the client based on their specific financial needs and objectives. All annuity transactions will be reviewed for Best Interest by our annuity suitability review team, unless that responsibility has been delegated to the distributor.

During the suitability review process, Prosperity Life Group may contact you to request additional information and/or updates to the Annuity Suitability Profile. Please note that changes to the customer's financial information or objectives will require customer initials/dates. The Basis of Recommendation section of the Annuity Suitability Profile must always be completed with sufficient detail.

The situations below will result in a heightened review. If any of the following situations exist, please discuss them in the Basis of Recommendation section of the suitability form. The suitability team may reach out for additional information before a suitability determination can be made.

- Annual Income less than \$40K
- Source of income is a Reverse Mortgage
- Annual Income less than Annual Expenses
- Disposable household income not sufficient to cover unexpected expenses
- Liquid Assets are less than \$40K
- Net Worth (less value of primary residence) is less than \$50K
- Liquid Assets are less than Annual Expenses
- For a replacement, the existing contract has an enhanced death benefit
- For a replacement, the existing contract was purchased within the last 3 years
- For a replacement, the existing contract has guaranteed benefits not available in proposed product
- Premium is greater than 50% of liquid assets
- Total value invested in annuities is greater than 50% of assets
- The client is replacing a life Insurance policy
- No disadvantage to purchasing annuity is identified



Suitability Declines

There may be times when Prosperity Life Group will be unable to approve an annuity purchase or replacement.

Examples of situations in which Prosperity Life Group is unlikely to approve may include, but are not limited to:

- Source of funds is Loan Proceeds or a Reverse Mortgage
- Replacements that will incur a net loss at issue (withdrawal charge + Bonus Recapture +/- Market Value Adjustment > than any applicable premium bonus)
- Replacement of an annuity contract that has more favorable rates and benefits
- Replacement of an annuity issued within the previous 24 months
- Client anticipates needing to access funds from the contract that will incur a surrender charge
- Liquid assets are less than 6 months living expenses for younger clients with higher levels of disposable income or less than 18 months for older clients with lower levels of disposable income
- Client has an aggressive risk tolerance or an aggressive growth investment objective
- Liquid Assets less than \$25K
- Net Worth (less value of primary residence) is less than \$40K
- Premium exceeds 70% of Liquid Assets
- Total value invested in annuities exceeds 70% of Assets
- Client anticipates taking withdrawals that will incur a surrender charge, exceed a penalty free withdrawal requirement, or that result in a pre-59½ tax penalty
- Client is younger than 25
- The information provided is inconsistent or does not support the recommendation
- The purchase is not recommended by the agent
- Client chooses not to provide suitability profile information

Summary

Our best interest review program is designed for our customer's benefit and to help producers meet or exceed regulatory requirements. All recommendations to purchase and/or exchange an annuity must be in the best interest of the customer based on their specific financial situation, insurance needs, and financial objectives. Documentation supporting the recommendation must be kept by the producer and provided upon request.

Prosperity Life Group is happy to discuss the suitability of a potential sale with you (*though no official best interest determination can be made prior to the sale*). If you have best interest questions, please contact our Suitability Review team at AnnuitySuitability@prosperitylife.com.





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