

Suitability & Best Interest Guidelines for Financial Professionals



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Best Interests & Standard of Care

Knighthead Life is focused on meeting customers where they need us most – through appropriate annuity sales. Any recommendation for the purchase or exchange of an annuity must be in the best interest of the customer based on the information known to you at the time of the recommendation. Prior to any recommendation, you must make a reasonable effort to obtain the necessary information from your customer regarding their financial needs and objectives.

The Company's policies and procedures are reasonably designed to align with the Suitability in Annuity Transactions model regulation adopted by the National Association of Insurance Commissioners.

When making a recommendation to a customer, you must act in their best interest when the recommendation is made – without placing your financial interest ahead of the interests of the customer. Any annuity recommendation must be accompanied by your prudent diligence, care, and skill and form a reasonable basis to believe that recommending an annuity effectively addresses the customer's financial situation, insurance needs and financial objectives. Our forms and application are designed to assist you in collecting information relevant to the purchase of a Knighthead Life annuity.

1. Best Practices

- Know the products you are offering and how they can meet your clients' unique financial situation and objectives.
- Your client should understand the annuity product features, benefits, and detriments.
- Provide clients with relevant and appropriate information for them to make an informed decision.
- Take actions to comply with all applicable best interest and replacement laws, rules and, regulations.
- Document conversation with clients and note why you recommended certain products.
- Maintain documentation in each client's file for future reference – especially suitability/best interests information.
- Know and apply the definition of replacement. You must disclose a replacement as it is required by law.
- Thoroughly evaluate and discuss the circumstance of all replacements with clients to help them make decisions that match their financial needs and objectives.
- Provide the necessary replacement notice is provided to clients and signed and dated to match the respective application.

Below is a sampling of questions that you may find helpful during the client information gathering stage:

- What is your current financial situation?
 - Are you employed and accumulating assets?
 - Are you retired with assets or benefit plan that provide income?
 - Are you uncertain about your financial situation and have potential changes to income and/or expenses.
- What are your financial objectives or concerns?
- Is the client's current financial plan meeting their financial objectives?
- Will the purchase of an annuity (or this product specifically) help address this financial objective? If so, how?
- Does the client understand how annuities work including, withdrawal charge periods and charges?

2. Client Profile and Foundational Analysis

A suitable recommendation begins with a complete and internally consistent understanding of the client. The producer is expected to gather sufficient information to construct a reliable financial profile, including income, expenses, assets, liabilities, liquidity, financial experience, and investment objectives.

However, suitability requires more than data collection. The producer must interpret this information holistically.

For example, a client with substantial assets but limited liquidity may present greater suitability concerns than a client with more modest assets but strong cash flow and reserves. Similarly, a client's stated risk tolerance must be evaluated in light of their financial experience and behavior, rather than accepted at face value.

For purposes of suitability analysis, financial information may be evaluated on a **household basis** where

appropriate. Householding is defined as “applicant and applicant’s spouse or domestic partner, as applicable by law” and is intended to reflect the economic reality that certain clients share income, expenses, and financial resources. When householding is applied, the producer must ensure that the combined financial profile presents a complete and accurate picture of the household’s ability to support the annuity purchase.

- If multiple household applications are submitted around the same time, it is expected that financials should 100% match the household.
- If household financials do not match, any change in the financial situation should be explained.

Key question: Does the household, as a whole, have the financial capacity to support this recommendation without undue risk or constraint?

3. Standard of Care

A producer must act with reasonable diligence, care, and skill to ensure that any annuity recommendation is in the best interest of the client, without placing the producer’s financial interest ahead of the client.

A recommendation must:

- Address a defined client need
- Improve or reasonably support the client’s financial position
- Be supportable through both qualitative reasoning and quantitative analysis

4. Producer Duty of Accuracy and Good Faith

Producers are responsible for ensuring that all information submitted in connection with an annuity application is complete, accurate, and not misleading. This includes all disclosures relating to the consumer’s income, expenses, liquid assets, net worth, and financial objectives.

Information must reflect the consumer’s actual financial condition at the time of the recommendation. Producers may not:

- Overstate income or liquid assets
- Understate expenses or liabilities
- Recharacterize illiquid assets as liquid
- Submit information that is inconsistent, unsupported, or strictly designed to meet suitability thresholds

Any such conduct may result in application rejection, heightened supervisory review, and potential termination of the producer relationship.

Suitability Guidelines

Knighthead Life evaluates all recommendations against the applicable standard of care to determine whether they are in the consumer’s best interest. The following guidelines highlight situations that may not satisfy these requirements and may result in a decline. These examples are illustrative and not intended to be exhaustive.

1. Liquid Assets & Affordability

Knighthead Life evaluates whether the consumer can both afford the annuity purchase and retain sufficient liquid assets following the annuity purchase to meet ongoing living expenses, foreseeable needs, and unexpected events without incurring penalties, surrender charges, or undue financial hardship.

- The consumer must demonstrate **positive disposable income**, meaning that income exceeds expenses after all routine living costs are considered. Where income does not exceed expenses, the transaction will

generally not be approved unless there is a clearly documented and supportable basis demonstrating that the consumer has sufficient liquid assets or other reliable resources to cover the shortfall without financial strain

- Generally, Knighthead Life requires that consumers maintain liquid assets sufficient to cover a **minimum of six (6) months of living expenses** following the annuity purchase.

Included as Liquid Assets	Not Considered Liquid
Cash and checking/savings accounts	Annuities within surrender period
Money market funds	CDs subject to penalty
Brokerage accounts (non-qualified)	Retirement accounts with restrictions (unless accessible without penalty)
Publicly traded securities	Real estate (including primary residence)
Short-term treasuries	Business interests
Existing annuities outside surrender period (penalty-free access only)	Personal property (vehicles, jewelry, etc.)

- **Prohibition on Using Annuities to Meet Required Income Needs**

Annuities are long-term financial products and must not be recommended as a primary source of funds to meet immediate or ongoing living expenses.

The consumer must have sufficient income and/or liquid assets to meet financial obligations without reliance on the annuity.

This includes a prohibition on relying on:

- Free withdrawal provisions
- Systematic withdrawals during the surrender period
- Partial surrenders or penalty-free access features

2. Overallocation in Annuities

Annuities to Net Worth Ratio = Total Household Annuities Owned / Household Net Worth

Annuity-to-Net Worth Ratio	Review Standard
≥ 60%	Acceptable
60% – 85%	Heightened review: documented justification required
> 85%	Presumptively unsuitable; strong justification required and subject to approval

- Net worth does not include primary residence and/or the land that it is on, automobiles, boats, vintage cars etc. or other personal property.
- Where a heightened review is required, Knighthead Life will evaluate the client's post-transaction liquidity, the presence of material assets outside of annuities, whether the annuities are part of a structured financial strategy (e.g., laddering), whether the transaction involves a replacement, and client's stated objectives including principal protection and/or wealth transfer.

3. Surrender Loss on Annuity Replacement

When evaluating a replacement, we review (amongst other factors) the true economic impact to the client at the time of the transaction. This is measured as the net surrender loss (NSL). Knighthead Life will generally accept a net surrender loss of 3% or less after any applicable premium bonus, excluding California and Minnesota.

Bonus products may partially or fully offset surrender loss; however, bonuses alone do not typically justify a replacement. The overall transaction must still demonstrate a net benefit to the consumer.

	Component-Based	Contract vs. Surrender Value
Calculation	$NSL = (\text{Surrender Charge} + \text{MVA}) - \text{Premium Bonus}$	$NSL = (\text{Contract Value} - \text{Surrender Value}) - \text{Premium Bonus}$
Key Inputs	Surrender Charge, MVA, Bonus	Contract Value, Surrender Value, Bonus
Example	Surrender Charge: \$7,000 MVA: \$1,500 Bonus: \$5,000	Contract Value: \$100,000 Surrender Value: \$91,500 Bonus: \$4,575
Calc. Net Loss	$\text{Net Loss} = \$8,500 - \$5,000 = \$3,500$	$\text{Net Loss} = \$8,500 - \$4,575 = \$3,925$
Calc. % Loss	$\$3,500 \div \$100,000 = 3.5\%$	$\$3,925 \div \$100,000 = 3.93\%$

Net Surrender Loss	Interpretation	Treatment
≤ 0%	No loss / net gain	Acceptable
0% – 3%	Moderate loss	Requires rationale
> 3%	Material loss	Generally not acceptable

For MYGA to MYGA replacements, the evaluation focuses on whether the consumer is economically made whole through improved guaranteed interest. Knighthead Life evaluates whether the recommendation satisfies the best interest standard of care by determining whether the consumer is reasonably expected to derive a net benefit from the transaction based on guaranteed elements.

In assessing net benefit, Knighthead Life considers whether any net surrender loss incurred upon replacement is reasonably offset over time by guaranteed interest improvements in the proposed contract. All replacement transactions must demonstrate a clear and reasonable net benefit to the consumer, based primarily on guaranteed elements.

A replacement will generally be considered consistent with the consumer's best interest where the consumer is reasonably expected to be economically made whole within 12 months, based solely on guaranteed values. This 12-month recovery period serves as a guidepost, not an automatic approval, and must be considered in conjunction with the consumer's:

- Financial situation and needs
- Time horizon
- Liquidity requirements
- Overall financial objectives

For transactions in California and Minnesota, Knighthead Life applies to a more conservative standard. Replacements resulting in a net surrender loss will generally not be approved, unless the producer demonstrates, through clear and specific documentation, that:

- The consumer will derive a material and quantifiable benefit; and
- The transaction otherwise satisfies California’s enhanced suitability and replacement requirements

4. Minimum Timeframe for Annuity Replacements

Knighthead Life evaluates the time a contract has been in force as a key factor in determining whether a replacement is in the consumer’s best interest. Replacements shortly after issue raise heightened concerns regarding suitability, including potential churning, incomplete realization of benefits, and unnecessary surrender charges.

As a general guideline, Knighthead Life will not consider replacement of an annuity contract unless the existing contract has been in force for a minimum of 24 months or if the annuity has not reached its first crediting anniversary. Contracts that have been in force for 36 months or longer are generally viewed as more appropriate candidates for replacement.

Exceptions to the 24-month minimum may be considered on a limited basis where there is clear and compelling evidence of consumer benefit, including:

- A material and immediate improvement in guaranteed elements (e.g., significant MYGA rate differential)
- A documented change in the consumer’s financial situation or objectives
- Correction of a prior transaction that is demonstrably not in the consumer’s best interest

5. Death Benefit Forfeiture

Where a replacement results in the **surrender of a high death benefit or death benefit rider value**, Knighthead Life applies the following thresholds based on the consumer’s age:

Age	Net Loss Threshold	Treatment
69 & Under	> 10%	Generally not acceptable
70–74	> 5%	Generally not acceptable
75 and above	> 3%	Generally not acceptable

Net loss is measured as the reduction in death benefit value resulting from the replacement. Transactions exceeding these thresholds will generally not be approved unless supported by **clear, specific, and compelling documentation** demonstrating that:

- The consumer no longer requires or desires death benefit; and
- The proposed contract provides a **meaningful and measurable benefit** that outweighs the loss

6. Income Rider Forfeiture

Where an existing contract includes an income rider, Knighthead Life applies heightened scrutiny. A replacement that results in the forfeiture of an income rider will require a detailed, individualized explanation demonstrating

why the transaction is in the consumer's best interest.

Replacements involving income rider forfeiture will generally not be approved where the consumer is in or near the income phase or where it is a material part of the contract value. Where applicable, the producer must provide a comparison of the existing and proposed guaranteed income benefits, including payout amounts and timing.

7. High Fixed Rate Replacements

Replacement transactions will generally not be approved where the existing contract provides a fixed interest rate of 5% or greater, or where the improvement in guaranteed interest is not sufficient to reasonably offset any surrender loss within an acceptable timeframe.

8. Prohibition on Reverse Mortgage–Funded Purchases

Knighthead Life does not permit the use of proceeds derived from a reverse mortgage, including a Home Equity Conversion Mortgage (HECM), to fund the purchase of an annuity.

Reverse mortgage proceeds are generally intended to support a consumer's liquidity and living expenses. Using such funds to purchase a long-term annuity product may create a mismatch between the consumer's liquidity needs and product features, and may not be consistent with the consumer's best interest.

Accordingly, Knighthead Life will decline applications where:

- An annuity is funded, in whole or in part, by reverse mortgage proceeds; or
- The transaction is structured in a manner that effectively converts home equity into an annuity purchase

9. Letter of Explanation (LOE)

During the suitability review process, Knighthead Life may determine that a letter of explanation could assist the analysis or that additional information is needed. In such instances, Knighthead Life will contact the producer asking for additional details. That said, an LOE is your opportunity to tell the client's story and explain why a recommendation is in their best interest— especially in situations that may not be immediately clear from the application alone.

A strong LOE is specific to the client and written in plain, straightforward language. It should clearly describe any trade-offs involved (what the client is giving up and why) and explain how the recommendation provides a real, measurable benefit based on the client's financial situation, needs, and objectives.

10. Replacement Activity & Churning Considerations

Knighthead Life may review patterns of replacement activity to identify potential churning or inconsistent recommendations. Multiple replacements within a short period of time, or transactions that result in repeated surrender charges or economic loss, may be subject to heightened review or decline.

Each recommendation must stand on its own and demonstrate a clear and supportable benefit to the consumer.

11. General Discretion

Knighthead Life may decline any transaction that, based on the totality of the circumstances, does not reasonably appear to be in the consumer's best interest.

This determination may consider factors including, but not limited to, the consumer's financial profile, liquidity position, time horizon, replacement history, and the overall rationale for the recommendation.

Summary of Suitability & Best Interest Standards

The following table summarizes Knighthood Life's core suitability and best interest standards applicable to annuity recommendations and replacement transactions. These guidelines are intended to assist producers and reviewers in identifying transactions that are generally acceptable, require heightened review, or may be inconsistent with the consumer's best interest. The standards below are not exhaustive and all transactions are evaluated based on the totality of the circumstances.

Section	Standard / Threshold	Review Standard / Key Guidance
1. Liquid Assets & Affordability	Minimum 6 months liquid assets post-sale	Consumer must maintain sufficient liquid assets to cover at least 6 months of living expenses
	Positive disposable income required	Income should exceed expenses after routine living costs
	Reliance on annuity for living expenses prohibited	Cannot rely on free withdrawals/systematic withdrawals during surrender period
2. Overallocation in Annuities	Annuities-to-Net Worth Ratio \leq 60%	Generally acceptable
	60% – 85%	Heightened review; documented justification required
	> 85%	Presumptively unsuitable; subject to approval
3. Surrender Loss on Replacement	Net Surrender Loss (NSL) \leq 0%	No loss / net gain; acceptable
	¹ NSL 0% – 3%	Moderate loss; rationale required
	NSL > 3%	Material loss; generally not acceptable
	Bonus offset analysis	Bonus alone does not justify replacement
	MYGA-to-MYGA replacements	Consumer should generally be economically made whole within 12 months based on guaranteed elements
4. Minimum Timeframe for Replacements	< 24 months in force	Generally not acceptable
	\geq 24 months	May be considered
	\geq 36 months	Generally more appropriate candidate for replacement
5. Death Benefit Forfeiture	Age \leq 69: >10% loss	Generally not acceptable
	Age 70–74: >5% loss	Generally not acceptable
	Age 75+: >3% loss	Generally not acceptable
6. Income Rider Forfeiture	Existing income rider forfeiture	Heightened scrutiny and detailed rationale required
	Near or in income phase	Generally not acceptable
7. High Fixed Rate Replacements	Existing fixed rate \geq 5%	Generally not acceptable unless compelling improvement exists

¹ NSL generally not permitted in California and Minnesota; enhanced scrutiny will apply.

8. Reverse Mortgage Funding	Reverse mortgage-funded annuity purchase	Prohibited
9. Letter of Explanation (LOE)	LOE required in elevated-risk cases	Should explain client-specific rationale and trade-offs
10. Replacement Activity / Churning	Multiple replacements in short timeframe	Heightened review and possible decline
11. General Discretion	Totality of circumstances review	Knighthead Life may decline any transaction not reasonably appearing in the consumer's best interest