BUILD AND SHARE WEALTH

With a modified endowment contract

You've worked hard to provide for your loved ones. You've also worked hard to build assets over and above what you need for your day-to-day living expenses. If you have a need for life insurance coverage, you may want to consider using those assets to fund a type of life insurance called a modified endowment contract, or MEC. When premiums paid into a life insurance contract exceed certain Internal Revenue Code limitations, the contract is considered a MEC. When this happens, any distributions you take during your lifetime may be taxable.

However, since a MEC is a life insurance contract, it provides these important life insurance benefits:

- A death benefit to your beneficiaries that is generally free from income taxation.[1]
- The potential for income tax-deferred growth of cash value.
- Death proceeds paid to a beneficiary other than the estate generally avoid probate.
- The means to leave a lasting legacy to help the people and the causes that matter to you.

As long as you do not take money out of the contract, the tax implications of a MEC may not apply to you, potentially allowing you to transfer more of your assets to your beneficiaries.

[1]State and/or federal inheritance and/or estate taxes may apply.

Protection for your estate—and for future generations

Funding life insurance as a MEC may make sense for you and your family if you:

- Have substantial assets that are not needed for living or long-term care expenses.
- Believe you won't likely need these funds in the near future.
- Want the potential for tax-deferred growth of cash value.
- Would like to provide your loved ones with a legacy that has income tax advantages.
- Care about making a charitable bequest using life insurance.

HOW MECS DIFFER FROM OTHER INSURANCE CONTRACTS

Your life insurance contract will be treated as a MEC for income tax purposes if you fund it in a way that the IRS considers too rapid, typically with a large premium payment. This helps prevent individuals from using their life insurance contracts as short-term, income tax-free investment vehicles instead of a means to financially protect their loved ones.

Although still considered life insurance, MECs can lose the income tax advantages that normally apply to any cash value taken out of the contract. For example:

- MEC distributions, such as withdrawals, loans and loan interest, automatic premium loans, collateral assignments, and certain dividends, are treated as receiving the gain in the contract first. For non-MEC contracts, distributions are generally treated as receiving the investment in the contract first. In either case, you'll normally pay ordinary income tax on any gain distributed.
- A standard 10% penalty tax will apply to the taxable portion of any MEC distribution taken prior to the contract owner reaching age 59½, unless an exception applies.

It's important to note that if you don't expect to take distributions from the contract, a MEC can offer a means to transfer significant assets to the next generation, or to a charity, as described in the section below.

What you need to know about MECs

If you are thinking about purchasing a life insurance contract that could become classified as a modified endowment contract, consider these possibilities:

- Dividends, while not guaranteed, are payable if they are earned. They also may be taxable.
- All MECs issued to the same contract owner in the same calendar year are treated as one contract for purposes of determining gains on the distributions.
- Exchanging a MEC for another contract does not eliminate its MEC status.

Tax advantages of using life insurance for charitable giving

While the primary purpose of life insurance is to protect your loved ones when you die, life insurance funds can also be used to leave a meaningful legacy to organizations or causes you care about. Using life insurance as part of your charitable giving strategy may allow you to give back while receiving tax advantages when you:

Name a charity as the contract's beneficiary. Your estate may be entitled to an estate tax charitable deduction for the proceeds. However, you won't be entitled to an income tax deduction for the gift. This strategy is appropriate if you want to maintain control of the contract during your lifetime while still being able to leave the death benefit proceeds to charity.

Gift the contract to charity. When you gift a contract to charity, the charity becomes its owner and beneficiary. You no longer have control over the contract. By doing this, you may qualify for an income tax deduction for a portion of the gift's value. If you continue to gift future premiums, you may qualify for an income tax deduction for the amount of premium gifted.

Compare a MEC to other product types

Before funding a life insurance contract as a MEC, you need to understand the consequences and implications of doing so. You should also compare alternative solutions before purchasing a life insurance contract that could become a MEC.

The products described in the chart below are quite different, each having unique strengths and weaknesses. Review the options carefully to help determine which product is best suited for your overall financial needs. This comparison assumes that the annuity, mutual fund and CD are not tax-qualified accounts.

	Life Insurance as a MEC	Deferred Fixed Annuity	Mutual Fund	CD
Primary purpose	Death benefit protection.	Long-term retirement income with guarantees.[1]	Long-term growth potential.	Long-term FDIC-insured investment.[2]
Premiums/funding	Single or periodic.	Single or flexible.	Single or flexible.	Single.
Growth and income taxation	Cash value grows tax-deferred.	Tax-deferred.	Short- and long-term capital gains and dividends taxed annually.	Taxed annually.
Cash availability	Loans and withdrawals available. Tax and surrender fees may apply.[3,4]	Withdrawals available. Tax and surrender fees may apply.	Withdrawals available. Tax and sales charges may apply.	Early surrender penalties or interest charges may apply.
Income tax treatment of withdrawals	Gain taxed first; then basis recovered.[4]	Gain taxed first; then basis recovered.	Investment gains are subject to tax upon withdrawal.	Interest taxed annually; no tax at withdrawal.
Taxation of loans and withdrawals taken prior to age 59½	Regular income tax plus 10% penalty (unless exception applies).[4]	Regular income tax plus 10% penalty (unless exception applies).	N/A	N/A
Income tax treatment for amount paid at death	Death benefit generally income tax-free to beneficiaries.	Current cash value or death benefit guarantee option[1]; gain generally taxable to beneficiaries as ordinary income.	Current account value. Step up in basis to beneficiary.	Current account value generally income tax-free to beneficiaries.
Evidence of insurability required	Yes	No	No	No
Fees and expenses	Fees and expenses apply that affect the cash value.	Fees and expenses apply and affect the value returned.	Fees and expenses apply and affect the value returned. Potential loads on purchases may also apply.	Fees and expenses apply and affect the value returned.
Other considerations	Must have an insurance need to purchase; contract could lapse if cash value depleted.	Low yields.	Potential loss of value.	Relatively low yields.

Investing in a mutual fund involves risks, including the possible loss of principal. The prospectus contains more complete information on the investment objectives, risks, charges and expenses of the fund, which investors should read and consider carefully before investing.

[1]Guarantees are backed by the financial strength and claims-paying ability of the issuer.

[2]For deposits at FDIC-insured institutions as of Jan. 31, 2018, the standard insurance amount is $250,000 per depositor for all account categories including IRAs and certain other retirement accounts.

[3]Distributions may reduce the contract death benefit and the cash value available to pay insurance costs, and may cause the contract to lapse. There may be tax consequences if the contract lapses or terminates.

[4]Loans and partial surrenders on contracts classified as modified endowment contracts (MECs) are taxed on a gain-out first basis and may be subject to a 10% penalty tax if made prior to age 59½.

Strong and stable

You can take comfort in knowing you have a solid partner on your side. Independent insurance analysts give us high marks for our financial strength and ability to pay claims, and our Comdex[1] ranking puts us in the top tier of insurance companies.[2]

We're also proud to again be named one of the "World's Most Ethical Companies" by Ethisphere Institute[3] for our leadership in promoting ethical business standards and introducing innovative ideas to benefit our members and their communities. For details, visit worldsmostethicalcompanies.ethisphere.com/honorees.

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Talk to your financial professional for more information and for help developing a charitable giving strategy. If appropriate to your situation, your financial professional will work with InFaith Community Foundation to help you achieve your planned goals.

Don't have a financial professional? Contact us at 800-847-4836 or visit Thrivent.com.

This is a solicitation for insurance. A licensed insurance agent/producer may contact you.

[1]Reported December 2018 by VitalSales Suite, EbixExchange, the Comdex score is the average ranking a company receives from the following four ratings agencies: AM Best, Standard & Poor's, Moody's Investors Services and Fitch Ratings. The Comdex score itself is not a rating, but rather a ranking. A company must receive ratings from at least two of the four ratings agencies in order to receive a Comdex score. For more information visit ebix.com/vitalSales-suite. The rating also refers only to the overall financial status of the company and is not a recommendation of the specific policy provisions, rates or practices of the insurance company.

[2]Ratings based on Thrivent's financial strength and claims-paying ability. They do not apply to investment product performance. The rating also refers only to the overall financial status of the company and is not a recommendation of the specific policy provisions, rates or practices of the insurance company.

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The information contained herein provides only a basic discussion of each charitable giving tool described and its advantages. For more details, contact your tax and legal advisors.

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