KEEPING THE FARM IN THE FAMILY

Basic financial, estate and relationship management

A More Than Money Matters® workshop

THRIVENT®

Be Wise With Money™

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About Thrivent

Thrivent is a not-for-profit financial services organization that helps Christians on their Wise With Money Journey to attain a life of contentment, confidence and generosity.

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ADVICE | INSURANCE | INVESTMENTS | BANKING | GENEROSITY

OVERVIEW

Welcome to **Keeping the Farm in the Family.** This guide will help you better understand basic financial, estate and family relationship management.

By the end of this workshop, you'll be more prepared to:

- Define your goals.
- Understand your options for proper estate management.
- Start creating an equitable transition strategy.

About this workbook

This workbook is intended to be a resource for you both during the workshop and after you get home. There is more information in the workbook than we can cover in the workshop, so be sure to review the rest of the material at home.

The use of the term "farm" in this workshop is intended to refer to any working homestead commonly referred to as either a farm or a ranch. We understand that there are many ways to describe a working homestead, so for the sake of simplicity, we have chosen to use the term "farm."

"The earth is the Lord's, and everything in it, the world, and all who live in it."

—Psalm 24:1

FARMING: A UNIQUE BUSINESS

Farming continues to evolve from one generation to the next. It is a unique business with challenges—and opportunities—all its own.

For example, the net worth of a "typical" farm is often high, while gross income that is supported by net worth can often be quite low. When your income is low and uncertain, you may wonder how you're going to keep the farm going from month to month, much less from generation to generation. Combine these business issues with related family issues, and farming can be a real challenge.

The good news is, it doesn't have to be that way. By attending this workshop, you've taken an important step in preparing for your financial future and the transition of your farm when the time comes.

Proper estate management can help you ensure that your farm and other assets are protected—now and in the future.

Tomorrow's transitions

Farm population is aging.

- 33% of U.S. farm operators are age 65 or older.[1]

Number of farms is declining.

- 1935: 6.8 million vs. 2017: 2.05 million.[2]

Industry of family businesses:

- 97% of farms are family farms.[3]
- Account for 86% of farm production.[3]

> *"A generation ago, passing on the family farm was a simple process. Profit margins were higher, land values were far lower, farm size was smaller and tax rates were not significant."*
>
> *—John Deere Life Insurance Co., "The Survival of the Family Farm in America," November 1992.*

[1]USDA Census of Agriculture, 2012 Census Highlights.
[2]Farms and Land in Farms, USDA, 2017 Summary.
[3]Structure and Finances of U.S. Farms; Family Farm Report, USDA, 2014 edition.

FARMING: A UNIQUE BUSINESS

Issues	Questions
Security	Will we have enough money to retire when Joe takes over the farm?
Transition strategy	Will Joe have the opportunity to continue running the family farm after we're gone?
Liquidity	Will all that we worked for stay within the family?
Family harmony	Will our children be happy with the strategies we laid out, now and after we are gone?

Security

When developing a transition strategy for your farm business, it's important to take steps to:

- Identify all sources of income. Nearly everyone wants to know they'll have adequate income during their retirement and that erosion of their assets will be minimal. That's why it's so important to begin a transition strategy by identifying all of your available sources of income, including:
  - Salary (e.g., land rent, crop share and equipment leases).
  - Pensions.
  - Social Security, IRAs and other retirement assets.
- Protect your income and assets. Perhaps just as important as assessing your income sources is ensuring the protection of your income and assets by establishing wills, trusts and durable power of attorney.
  - Ensure you have adequate health care coverage. This may include medical/surgical and doctor coverage, home care coverage, assisted living coverage and nursing home coverage.
  - Diversify your investments.

ISSUES TO CONSIDER

Taking Action No. 1: Identifying Concerns

From the list below, circle your top three concerns.

1. How can we be fair to our children in estate division?
2. How can we help farming children succeed?
3. How can we prevent losing the farm to a nursing home? What about creditor protection (e.g., divorce of children, lawsuits)?
4. What about estate taxes?
5. Should we consider gifting the farm to our children while we're living?
6. What type of ownership is best for the land: a corporation or a partnership? Do they help us?
7. What about charitable giving?
8. How do we deal with mineral rights?
9. Should we sell the farm or rent it (if there are no farming children)?
10. Do I need a will? If so, what kind? How about trusts?
11. What about life estates?
12. How do we deal with debt?
13. _____
14. _____

Once you identify your concerns for your farm business, you can take steps to address them.

ISSUES TO CONSIDER

Taking Action No. 2: Thinking About Your Goals

Use the following list to help you think about possible financial goals. Put a check mark by those that are most important to you. This list will be helpful when determining the most appropriate financial strategy to address your goals.

Strengthening your financial position	☐ Improving financial balance. ☐ Managing debt.
Protecting your future	☐ Preparing for unexpected disability/health care needs. ☐ Surviving loss of spouse. ☐ Preparing for retirement.
Investing with purpose	☐ Providing for your family. ☐ Saving for a specific need. ☐ Managing your portfolio.
Ensuring financial independence/ retirement	☐ Ensuring lifelong income. ☐ Understanding retirement benefits. ☐ Creating financial independence.
Helping others	☐ Donating to church/community. ☐ Devoting time to causes you care about. ☐ Gifting within your family.
Leaving your legacy	☐ Donating to organizations and causes you care about. ☐ Caring for your children. ☐ Ensuring your business outlives you. ☐ Obtaining appropriate legal documents. ☐ Passing on a profitable farm.
Developing tax strategies	☐ Minimizing tax liabilities. ☐ Creating tax-free income. ☐ Preparing business strategies. ☐ Minimizing business transition fees/penalties.
Other financial goals	☐ _____ ☐ _____ ☐ _____

ESTATE MANAGEMENT

Proper estate preparation means protecting your assets from loss before—and after—your death. Estate management consists of more than drawing up a will. Although a will is an important part of your strategy (e.g., it names heirs, nominates an executor and appoints guardians for dependents), it cannot guarantee a secure future for your family, land or farm business.

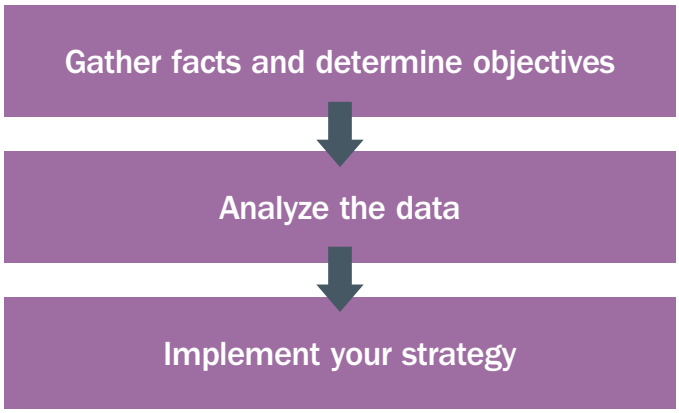
An estate management strategy can help you:

- Secure your financial future to help you reach your goals.
- Transfer ownership of your farm business (i.e., develop a proper farm transition strategy).
- Reduce estate taxes.
- Ensure your wishes are carried out after you're gone.
- Keep harmony in your family.

Estate management consists of three key steps:

1. Gathering facts and objectives.
2. Analyzing the data with your estate management team (e.g., accountant, attorney, life underwriter, trust officer, financial professional).
3. Implementing your strategy.

Estate taxes, administrative costs, probate and other expenses can significantly reduce the amount of your estate passing to your heirs. You can take steps now to achieve the goals you have for your business and make the process of passing on your farm easier for you—and ultimately your children—by developing an equitable farm transition strategy.



FARM TRANSITION STRATEGY

If you plan to transition your farm to another owner(s), you need to develop a transition strategy.

A good transition strategy accomplishes at least four objectives:

- Transfers ownership and management of the farm, land and other assets.
- Avoids unnecessary transfer of income, gift and estate taxes.
- Ensures financial security and family harmony for all generations.
- Develops the next generation's management capacity.

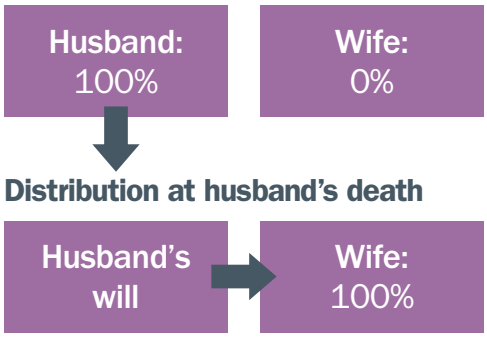
Ownership arrangements

When thinking about a transition strategy, consider the best type of ownership arrangement for your situation. Review the examples on this page and be sure to discuss your options with your team of financial and legal professionals.

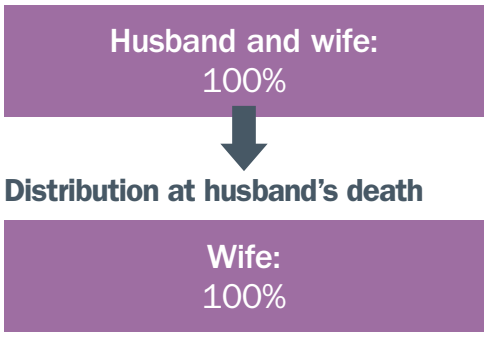
Ownership options include:

- Individual ownership of farmland: It could pass to spouse at death.
- Joint ownership with rights of survivorship: All assets go to the surviving spouse (i.e., nothing to the will or trust).
- Joint ownership as tenants in common: This is the most common option, as it is equitable to both owners. In this situation, when one spouse dies, the farmland is owned jointly by the surviving spouse and the trust. The farm can then be passed according to the survivor's wishes.

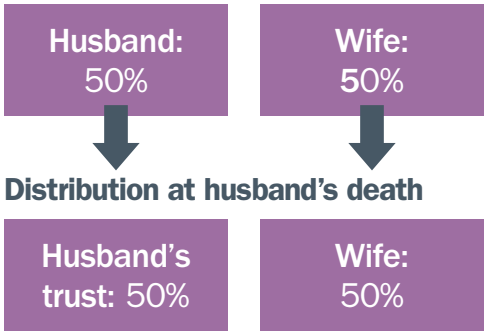
1. Individual ownership of farmland



2. Joint ownership with rights of survivorship



3. Joint ownership as tenants in common



FARM TRANSITION STRATEGY

Wills*

There are a number of ways you can transfer the ownership of your farm to the next generation. Start with the most important component of your estate strategy—your will.

When you visit with your attorney, you will discover there are several varieties of wills, including simple wills and tax-wise wills.

What does a simple will do?

A simple will allows you to:

- Name whom you want to inherit your property.
  - Name whom you want to serve as guardian of any minor children.
- Name a custodian or trustee to manage money and other property on behalf of any minor children.
- Name an individual to be your personal representative or estate administrator.

Tips

- Store your will and accompanying documents in a secure place.
- Share copies with trusted people for safekeeping.
- Be sure to work with your financial professional and ensure the validity of your will in your state of residence.

Family trust

Couples who wish to minimize the federal taxes that may be incurred on their combined estates may want to consider what is often called a "family trust."

Typically, these can be funded with an amount up to the existing applicable exclusion amount. This means you may pass up to the annual limit without being subject to any federal estate tax. The family trust usually benefits the children or grandchildren. However, the surviving spouse can be given an income interest in the family trust.

The remaining assets of the first spouse to die can be transferred:

- Directly to the surviving spouse, or
- Into a marital trust for the benefit of the surviving spouse.

A family trust may offer tax advantages. In other words, there will be less property left to be taxed in the surviving spouse's estate at his or her death.

Be sure to visit with your attorney to develop a will or to understand the advantages and disadvantages of the various types of wills to help you achieve your goals.

*Consult with your legal advisor for additional information on which method (if any) is best for you and your situation.

FARM TRANSITION STRATEGY

Trusts*

Trusts are legal arrangements to help you accomplish a variety of goals—from providing income for yourself and your survivors, to passing on your interests to the next generation, and more.

Trusts can be flexible and can be customized to fit a variety of needs. In a trust, a grantor agrees to transfer assets to a trustee, who manages the assets according to the terms of a trust agreement for one or more trust beneficiaries.

Several types of trusts are available. Work with your team of financial professionals to determine which type may be most suitable for your financial situation and goals.

Trust type	When created and funded?	Why used? When suitable?
Charitable remainder	During life or at death.	May provide tax deductions and income to grantor and grantor's family while benefiting a charity.
Credit shelter	During life or at death.	Used by married couples to help reduce impact of federal estate taxes on their combined assets.
Living	During life.	Commonly used to avoid probate.
Special needs	During life or at death.	Helps provide for the financial needs of disabled individual throughout his or her life.
Testamentary	At death.	Provides for professional management of your assets at death.

Buy-sell agreements*

A buy-sell agreement helps ensure the orderly transition of your farm. A buy-sell agreement can provide:

- For the succession of a family farm.
- Liquidity to the deceased owner's estate for the payment of debts and taxes.

There are several ways a buy-sell agreement can be structured to meet the needs of a family. Of course, with any agreement, there are advantages and disadvantages. For example, a buy-sell agreement can help:

- Ensure a smooth transition to heirs.
- Prevent outsiders from gaining control.
- Establish taxable value to minimize valuation conflicts with the IRS.

Conversely, a buy-sell agreement:

- Can be costly to draft and maintain.
- Requires property valuation from time to time, which can be an added expense.

Be sure to work with your team of financial professionals to determine which type of agreement may help you reach your estate strategy goals.

*Consult with your legal advisor for additional information on which method (if any) is best for you and your situation.

FARM TRANSITION STRATEGY

Creating a family partnership

One objective of estate management is to facilitate the transfer of ownership and management of the farm business, farmland and other assets. Family partnerships are often implemented for this purpose.

Advantages of a family partnership include:

- Transitioning business income to children—who may be in a lower tax bracket—thereby increasing spendable income.
- Minority discount: for the "minority" (child) in the partnership/corporate LLC when he or she is a lesser stakeholder.
- Lack of marketability discounts: 20% to 30% discount on the value of the partnership corporate LLC in estate taxes and for purposes of gifting.
- Ability to retain majority control of your assets.
- Opportunity to protect your assets.

Be sure to weigh the advantages and disadvantages of a family partnership. For example, there are administration and maintenance costs. There may also be legal liability for other partners.

Ways to bring children into a family partnership

In a family partnership, you can begin to shift wealth to your children, introduce them to asset management, educate them about investments and wealth, facilitate and manage pooled resources, and achieve different economies of scale.

Children can be brought into a family partnership by:

- Contributing capital to the partnership.
- Buying into the partnership.
- Working in the partnership.
- Parent gifting interest to children.

The activity on page 14 of this workbook will help you define and outline the roles and responsibilities of those involved with your farm. This will help when thinking about a possible family partnership.

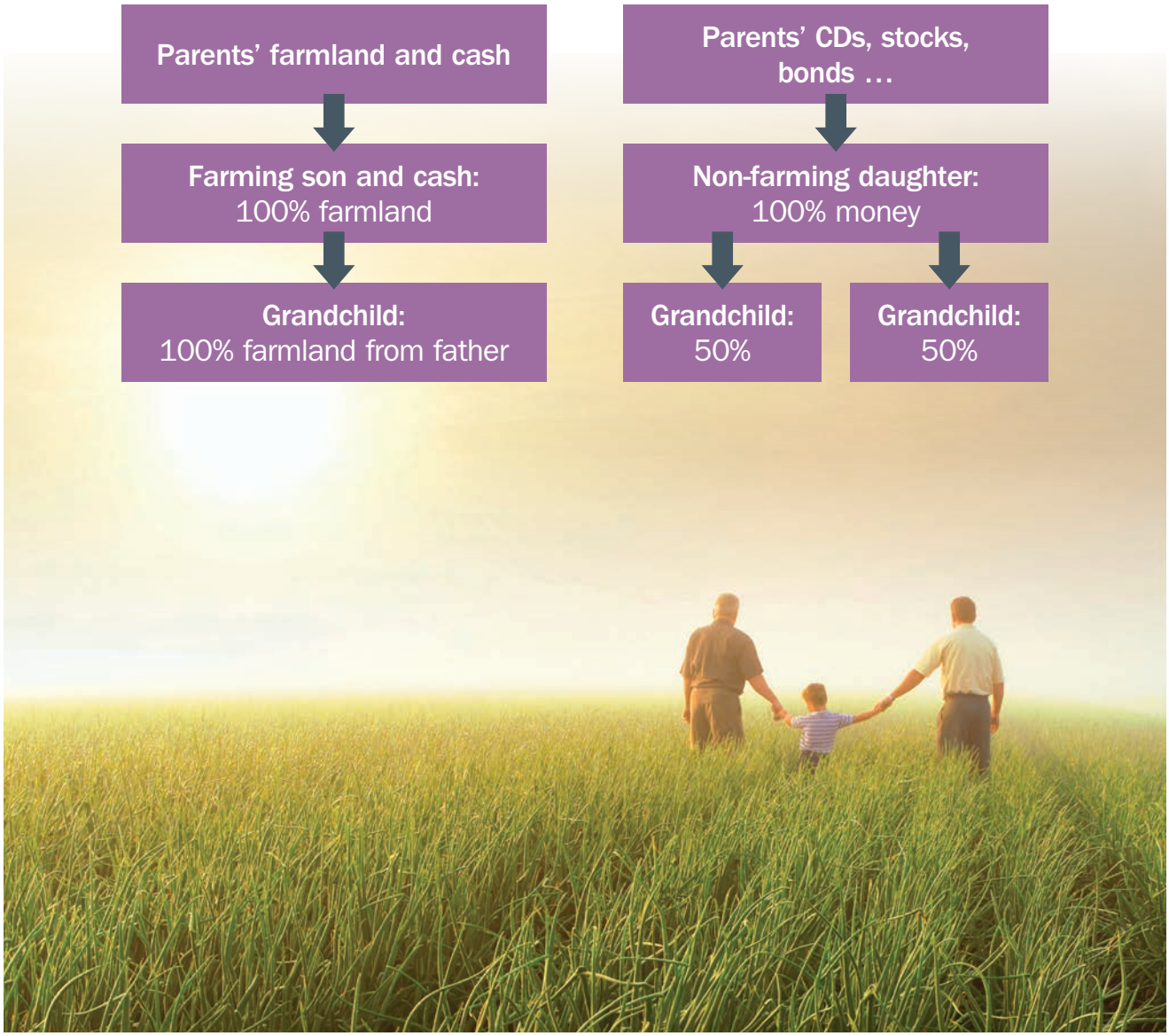
FARM TRANSITION STRATEGY

Distribution that's equitable to all

Asset division

When it comes to equitable distribution, it's important to determine how asset division compares to income division among "farming children" and "non-farming children."

Keep in mind, an equitable arrangement doesn't necessarily mean creating equal shares of a farm estate, because the child(ren) who is involved in the family business generally contributes a substantial amount of his or her time, energy and resources to make the business succeed.



FAMILY HARMONY

Part of making your vision for your farm's transition a reality is communicating to your family. Developing a strategy ensures everyone is on the same page when it comes to roles and responsibilities noted in your transition strategy, and the rationale for the decisions you've made.

Talking about money doesn't have to be difficult

Keep in mind that discussions about money can be a source of natural tension. For example, some children may want more authority and responsibility than their parents are willing to give. On the other hand, parents may hesitate to give up control because they worry that their children may obligate the business in ways they don't agree with.

However, talking about money is important to managing the resources God has entrusted to our care. It's also important for these reasons:

- As part of a couple, effective communication helps you make sharing, saving and spending decisions in line with your values and goals. Effective communication can also help you jointly steward your resources and may even improve your relationship.
- Talking about money can help teach your family about sharing, saving and spending, and develop healthy money habits that last a lifetime.
- Effective communication about money can help your children care for you when the time comes and ensure that your wishes will be followed.
- Financial professionals can serve you best when they fully understand your financial situation, as well as your values and goals.

Talking about money may be easy or difficult, based on your past experiences. Some people have positive experiences that result in feeling comfortable talking about money, while the opposite is true for others.

ACTION STEPS AND ACTIVITIES

If you want to keep the farm in your family, it's important to take steps now to ensure your farm transitions according to your wishes.

To help you stay on track, write down a target date for completing each of the action steps listed below. Then, once you've completed the action step, put a check mark in the appropriate box.

Action Steps

Target date	Action step	Completed
_____	Review the material presented in this workbook, including the Taking Action exercises. Complete any exercises that were not finished during the workshop.	☐
_____	Post your goals in a visible place and refer to them often to help remind you of what you're working toward.	☐
_____	Communicate with your children regularly to help keep them informed of your goals and wishes for the farm business.	☐
_____	Work with appropriate professionals (e.g., your financial representative, tax advisor, attorney) to:	
	• Help ensure your assets are protected and distributed according to your wishes.	☐
	• Prepare a comprehensive financial strategy that addresses your goals, such as developing a farm transition strategy or a business partnership.	☐
	• Help you answer important questions related to your goals and estate strategy, such as:	
	– What legal documents, besides a will or trust, should I have?	☐
	– How can proper preparation help me transfer assets with the least cost to my heirs?	☐
	– How will taxes on my estate be paid when I die?	☐
	– How do I make my assets last as long as I live?	☐
	– What is a trust and how does it work?	☐
	– Can I make changes to a trust?	☐
	– How do I create my personal legacy that will continue after I'm gone?	☐
	– How can charitable contributions help others and reduce my income tax, estate tax and gift tax?	☐
_____	Share your pledge to Do One Thing Different at MoreThanMoneyMatters.com.	☐

Additional materials

The following pages include activities and exercises for you to complete at home. They are intended to give you a better idea of some of the considerations to keep in mind while you are in the process of making your own transition strategy. You are encouraged to bring the completed activities with you when meeting with a financial professional, as the information can provide a better understanding of your individual financial situation and goals.

ACTION STEPS AND ACTIVITIES

Activity: Transition strategy

Farm business continuation preparation

How can you prepare for the continuation of your farm as a business after retirement or death?

As a farm business owner, are you taking advantage of preparation opportunities available to you and your family?

Why is coordination of business preparation and personal preparation important?

Complete the following, then ask yourself, "When I/we transition the farm, will these people be involved?"

Be sure to include this in your packet of information that you have available when you meet with your financial representative.

Management Information (Who runs day-to-day operations? Duties?)

Name	Title	Duties/Skills

Key People (Who are the individuals critical to the profitability of the farm as a business?)

Name	Age	Family Relationship (if any)

Farm Business Transition
(What is the strategy for continuation? How? Who?)

What do you want to happen to your farm business when you retire, die or if you should become unable to continue daily operations?

_____

_____

Is there a continuation strategy already in place?

_____

_____

Who are your advisors? (Other farmers, family members, cooperative, accountants, financial representative, etc.)?

_____

_____

ACTION STEPS AND ACTIVITIES

Activity: Talking to your family about money

Once you start talking about money and assets with your family, you'll want to keep your conversations positive. What can you do to make conversations about money a positive part of your transition strategy/routine?

When do you think would be a good time to talk with your family about your farm transition strategy? It is recommended that this conversation take place during a scheduled "family meeting" (i.e., not during a holiday event or other special family gathering).

ACTION STEPS AND ACTIVITIES

Activity: Your net worth

To calculate your net worth:

1. Gather your financial information and fill in the amounts of your assets and liabilities.
2. Subtract your liabilities from your assets. This number is your net worth.
3. Calculate your net worth each year and compare how it's changed since the previous year.

	Date: _____	Date: _____
ASSETS	**Amount**	**Amount**
Checking account balance		
Emergency account balance		
Savings account balance		
Stock and mutual fund account balances		
401(k), IRA and other retirement account balances		
Life insurance (face value)		
Farmstead (market value)		
Equipment and vehicles (market value)		
Crop values		
Receivables		
Other:		
Other:		
Total assets		
LIABILITIES		
Outstanding credit card balance		
Outstanding home mortgage		
Outstanding home equity and other lines of credit		
Car loan (amount due)		
Student and other loans, including money borrowed from family/friends		
Farm loans		
Equipment loans		
Business accounts		
Other:		
Other:		
Total liabilities		
Net worth (assets minus liabilities)		

NOTES

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COMMITTED TO YOU

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Focused on Meeting Your Needs

Sometimes all you need is someone to help show you the way, and it's no different when it comes to your finances. Whether you're just starting out in your career or are preparing for the retirement of your dreams, I'm here to listen, understand and help guide you along your financial journey.

Through a full range of Thrivent products and services, I'll help you create a financial strategy driven by your values. Together, we can explore how you can:

- Protect your financial future—and your family's.
- Be better prepared financially in the event of a death.
- Care for your family after you're gone.
- Plan for long-term care expenses.
- Explore more tax-efficient ways to manage your money.
- Preserve and pass on your estate.
- Make a difference, locally or globally.

Professional Highlights

- CFP® (Certified Financial Planner®), a certification granted by CFP Board, Washington, D.C.
- CLTC® (Certification in Long-Term Care), a designation granted by the Corporation for Long-Term Care Certification.
- FIC (Fraternal Insurance Counselor), a designation granted by the Fraternal Field Managers' Association.

Education and Experience

- FINRA Series 7 General Securities Representative.
- FINRA Series 66 Uniform Combined State Law.
- Life & Health Insurance Licenses.
- Bachelor of Science from University of South Dakota
- Juris Doctorate from the University of Nebraska, Lincoln - College of Law

Specializations

I specialize in the following:

- Retirement planning
- Life insurance
- Investments
- Education funding strategies
- Divorce financial planning
- Estate strategies
- Solutions for businesses
- Retirement accumulation
- Retirement income planning

Personal Profile

- I am married to Mike Slizoski and we have a daughter together. I also have 3 step-children with two grandchildren, as well as a former foster-daughter with two "grandchildren."
- I practiced law for 19 years in Columbus and the surrounding area prior to becoming a financial advisor.

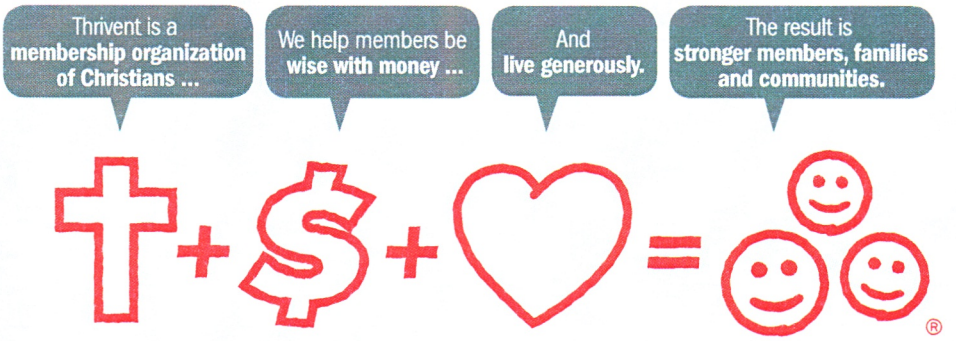
Giving Back

I support the following charities and causes:

- Habitat for Humanity - Board of Directors
- Federated Church - Various Committees

WHO IS **THRIVENT FINANCIAL?**

We guide Christians nationwide on their Wise With Money Journey, equipping them to reach their financial goals and live more content, confident and generous lives. We offer personalized financial guidance and provide access to Thrivent products, services and member benefits.



Strong and Stable

Independent insurance analysts A.M. Best and Fitch Ratings give us high marks for our financial strength and ability to pay claims—in other words, how well we keep our promises.[1]

A.M. Best

A++ **Superior**
May 2018
Highest of 16 ratings

Fitch Ratings

AA+ **Very Strong**
May 2018
Second highest of 19 ratings

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[1]Ratings based on Thrivent's financial strength and claims-paying ability. Do not apply to investment product performance.

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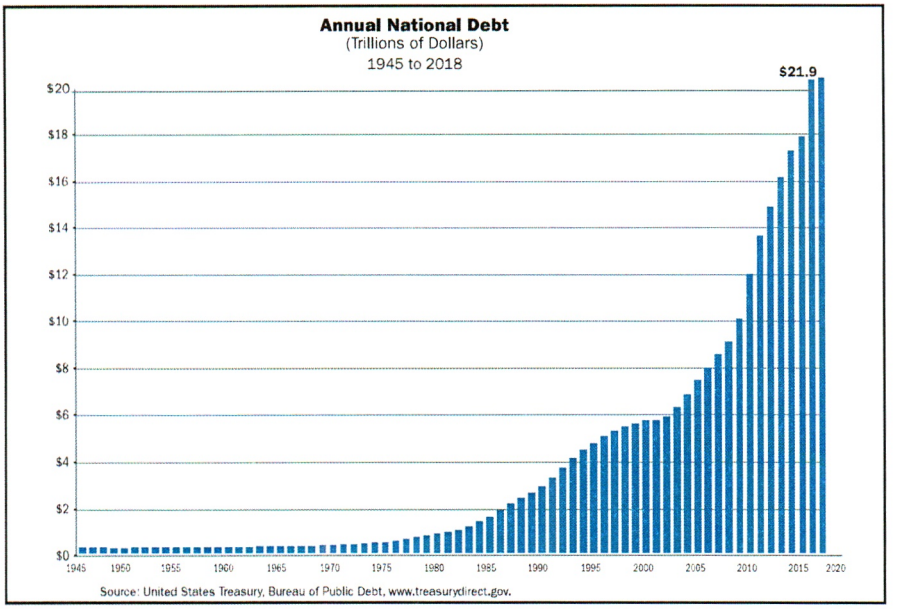
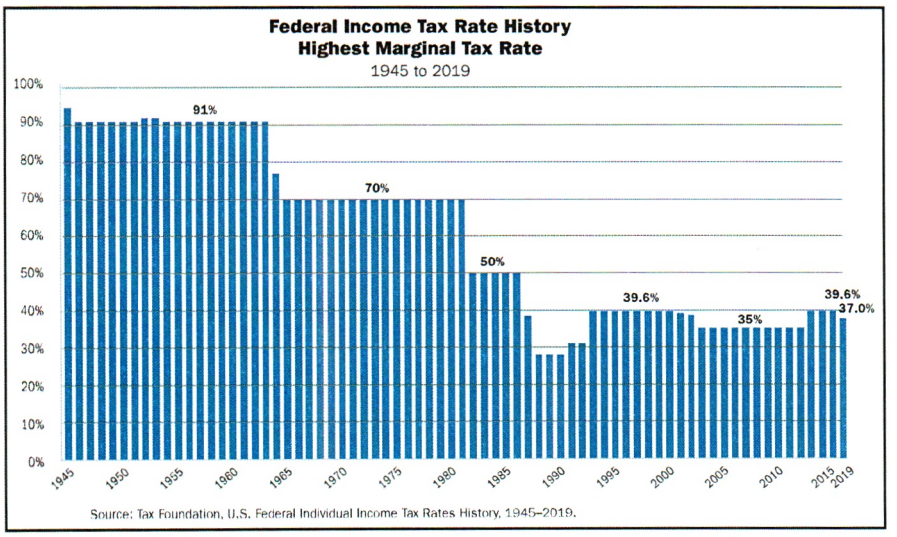
THE POTENTIAL FOR A HIGHER TAX ENVIRONMENT

Which direction will tax rates go?





Strategies to consider

- Consider a traditional IRA to Roth IRA conversion to pay taxes now rather than later.[1] Note: this type of conversion is a taxable event.
- Consider investing in tax-exempt municipal bonds which may provide federal and in some cases state tax benefits.[2]
- Purchase or own life insurance as an asset because it generally provides a federal income tax-free death benefit and income tax-deferred growth potential of your accumulated value.[3,4]

Please refer to the disclosures on the reverse side for numbered references.

How will the growing national debt affect your future?

According to the U.S. Department of the Treasury, the national debt was $21.9 trillion as of Dec. 31, 2018. To get this growing debt under control, or at least slow it down, spending cuts and tax increases are being considered. One thing is clear: something must be done so we can continue to fund government programs in their current form.

Will tax rates go up, down or stay the same?

Marginal income tax rates have fluctuated from a low of 1% in 1913 to a high of 94% in 1944 and 1945. An overview of the top U.S. federal marginal income tax rates shows that while we're not in the lowest income tax rate environment in history, we're well below the all-time high. For 2019, the highest marginal tax rate is 37% and the lowest tax rate remains at 10%.

If you're currently in a high income tax bracket, or expect to be in the future, one money-wise thing to consider is diversifying a portion of your assets into vehicles that are potentially income tax-free in retirement. Some specific strategies are listed at the bottom of this page.[5]

Take charge, get informed

No one knows for sure where tax rates are headed. However, by working with your Thrivent financial professional and a tax professional, you can get a grasp on your current tax situation. This knowledge will enable you to make more informed financial decisions no matter what the future may bring as you navigate your Wise With Money Journey.

NEXT STEP

Contact us today to discover how we can help you on your Wise With Money Journey.

[1]A distribution from a Roth IRA generally is federal income tax-free if it meets all the requirements for a qualified distribution or it is a nonqualified distribution of after-tax contributions (basis).

[2]Municipal bonds are subject to risks that include, but are not limited to, credit risk and interest rate risk. Some issues may be subject to state and local taxes and/or the alternative minimum tax. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all income tax brackets. Please consult your tax advisor for detailed discussion on your specific situation.

[3]Thrivent and its financial professionals do not provide legal, accounting or tax advice. Consult your attorney or tax professional.

[4]Under current tax law, death proceeds received by beneficiaries are income tax-free. However, death proceeds may be subject to estate and inheritance tax. If distributions are taken from the accumulated value, they may be subject to income tax.

[5]While diversification can help reduce market risk, it does not eliminate it.

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Connecting faith & finances for good.®

TAX EFFICIENCY CHECKLIST

KEY: In the upper boxes of the Purpose columns, enter either **ST** (Short-Term Savings), **LT** (Long-Term Savings) or **AT** (Asset Transfer). In the lower boxes, enter either Retirement, Education or Other.

TAX NOW (see disclosures)			TAX LATER (see disclosures)			TAX NEVER* (see disclosures)		
	Amount	Purpose		Amount	Purpose		Amount	Purpose
Savings[1]			**IRAs**[3,4,5]			**Roth IRAs**[5, 7]		
Checking[1]			**401(k), 403(b) and other pension plan assets**[3,4,5]			**Roth 401(k)**[5, 7]		
CDs[1]						**Municipal Bonds**[8]		
Mutual Funds[1]			**Variable Annuities**[3, 5]			**Whole Life Insurance Cash Value**[9]		
Stock Dividends[1]			**Fixed Annuities**[3, 5]			**Variable Universal Life Insurance Cash Value**[9]		
Bonds[1]			**Stocks**[1]					
U.S. Treasuries[1,2]			**U.S. Savings Bonds**[6]			**Universal Life Insurance Cash Value**[9]		
Other			**Other**			**Other**		
TOTAL			TOTAL			TOTAL		

[1]Interest, dividends and/or capital appreciation subject to taxation when realized.

[2]U.S. Treasuries are generally exempt from state and local income tax.

[3]Gains subject to income tax when withdrawn.

[4]Generally funded with pre-tax dollars.

[5]Distributions prior to age 59½ may incur a 10% premature distribution penalty; may incur surrender charges.

[6]Generally exempt from state income tax. Special tax benefits may apply.

[7]Funded with after-tax dollars; gains may be tax-free.

[8]Interest is free from federal income tax; may be subject to state income tax, federal alternative minimum tax and capital gains tax.

[9]The primary purpose of life insurance is the death benefit protection. Withdrawals may be available income tax-free to the extent of basis. Lifetime distributions of the cash value are subject to possible income taxation and penalties, could reduce the death benefit and cause the contract to lapse.

*The withdrawal of dividends or the amount of a loan or partial surrender may be subject to ordinary income taxes.

NAME _____

DATE _____

Use the checklist on page one to uncover assets that may be best-positioned to help you reach your financial goals. Keep in mind, the checklist only considers income tax treatment of the listed assets, which also may be subject to state and federal estate and/or inheritance tax.

Time Diversification

If you were to project your life on a timeline, there are a number of short- and long-term goals that you will likely plan and save for, like a new home, college education for your children, retirement, travel or charitable giving.

How and when you plan to use the money are important factors in deciding the most tax-efficient type of investment to help you reach your goals.

Investment Diversification

Investment diversification is the process of allocating investments across a variety of asset classes. Diversification alone cannot protect against losses in a declining market, but it can be an effective way to minimize risk and protect you from inflation. As such, it is an important component for investors who have multiple goals with different time horizons.

Income Tax Diversification

Income tax diversification helps you position your assets more income tax-efficiently and increase your total spendable income. Different types of investments are taxed at different times. For example:

- **Tax Now** assets are liquid and are best-positioned for current, short-term needs. They include savings and checking accounts, certificates of deposit and U.S. Treasuries.
- **Tax Later** assets are generally earmarked for longer-term needs, like college and retirement funding. They include qualified plans, traditional IRAs and annuities.
- **Tax Never** assets generally offer preferential income-tax treatment on the accumulated value and its distribution. They include Roth IRAs, municipal bonds and life insurance, and are funded with after-tax dollars.

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Be Wise With Money™

MAKING THE MOST OF YOUR INCOME TAX BRACKET OPPORTUNITY

Why should you care about tax bracket opportunities? Because not caring and not educating yourself about them could mean missing out on an opportunity to help make the most of your tax situation and, potentially, reduce the amount of taxes you pay.

Specifically, knowing which income tax bracket each additional dollar of income falls into can give you the potential for tax savings not just today, but in the future as well.

In addition, understanding how tax brackets work, along with keeping in mind these two general rules, may help you make better decisions when it comes to your finances.

- **Rule No. 1:** If you anticipate making less income and being in a lower income tax bracket this year than next year, you may want to take more income this year and defer deductions to next year.
- **Rule No. 2:** If you anticipate you will be making more income and be in a higher income tax bracket this year than next year, you may want to defer income to next year and take more deductions this year.

A brief history

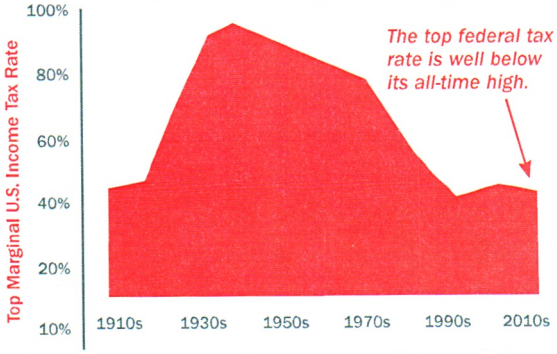
From 1944 to 1945, the highest federal individual marginal income tax rate was 94%. From 1988 to 1990, the top marginal ordinary income tax rate was 28%—one of the lowest in history. In 2019, the top marginal individual income tax rate falls in between, at 37%.

No one knows for sure where tax rates are headed. However, by working with your Thrivent Financial professional and a tax professional, you can get a firm grasp on your current year's marginal income tax rate and a good idea of what next year's will be, which may help you make more informed financial decisions.

How do tax brackets work?

The U.S. federal income tax system is designed so that each taxpayer falls into a certain tax bracket based on his or her income; the bracket helps determine how income will be taxed.

However, a common misconception is that falling into a certain tax bracket means that you'll pay taxes at that rate on all of your income. The reality is that this is a marginal income tax rate, which means that you pay taxes at progressively higher rates as your income moves from one bracket to the next. Only those dollars that fall above the tax bracket minimum are taxed at that rate.



Source: Internal Revenue Service

Joint filing versus single filing and the potential tax impact

This chart illustrates the 2019 federal marginal ordinary income tax rates for married taxpayers filing a joint return and for single taxpayers. It assumes the taxpayers are taking a standard deduction*.

The standard deduction amounts are reflected in light gray at the bottom of each column. The figures inside the boxes, building from the bottom of each column to the top, are the amount of taxable income subject to each marginal rate.

Your Window of Opportunity

Because of the complexities involved in implementing the 2010 health care reform legislation, the chart does not reflect the impact of the law on higher-income taxpayers who will be subject to an additional 0.9% tax on earned income and a new 3.8% tax on investment income.

The chart also does not reflect adjustments imposed on individuals with higher incomes, such as tax breaks and deductions that are reduced or eliminated as income exceeds certain thresholds. State income taxes, if applicable in your state of residence, are not reflected in this chart.

How to read the chart

Assume a married couple earned $100,000 in 2019, with $24,400 standard deduction. Here's how they might be taxed:

	Income	Marginal tax rate	Taxes owed
First	$24,400	0%	$0
Next	$19,400	10%	$1,940
Next	$56,200	12%	$6,744
Totals	$100,000		$8,684

*Standard deduction of $12,200 for single filer, and $24,400 for joint filers. Additional deduction for age 65 or over or blind: Married = $1,300; Single = $1,650.

Personal exemptions were eliminated with the 2018 Tax Cuts and Jobs Act.

Case No. 1: Taking more (or less) income this year

Although we often don't have a choice, sometimes it makes sense to put off receiving taxable income. Consider Carl and Kathy, who are in their late 60s and retired. They have been talking to their Thrivent Financial professional and accountant about taking an additional taxable distribution of $5,000 from one of their IRAs. Even though they don't need the money right away, they are hoping to minimize the tax impact of having to take required minimum distributions (RMDs) in the future.

This year Carl and Kathy are in the 22% marginal income tax bracket. Next year their accountant tells them they will probably be in a 12% marginal bracket. If Carl and Kathy wait until next year to take the distribution from the IRA, they could save $500 in federal income taxes ($5,000 x 10%).

Case No. 2: Using an IRA to save on taxes

Mary is a single taxpayer in her early 30s who is in a 22% federal marginal income tax bracket. Although it's a long way off, she wants to start saving more for her retirement. That's why she is thinking about opening a traditional IRA this year and making a $6,000 tax-deductible contribution.

After consulting with her Thrivent Financial professional and her tax advisor, Mary learns that contributing to the IRA would not only put her on the road to a more comfortable retirement, but would also provide her with potential savings of $1,320 in income taxes ($6,000 x 22%).

Case No. 3: Planning for the worst, but hoping for the best

Bill and Judy are in their early 60s, currently file a joint federal income tax return, and have an adjusted gross income of $100,000, which puts them in a marginal income tax bracket of 12%.

But what if the unthinkable had happened and Bill had died last year? After the estate settles, Judy's accountant estimates that the income of $100,000 that she and her husband had enjoyed will be reduced by $10,000 (primarily due to the loss of Bill's retirement benefits) for a total current year income of $90,000. Using the Window of Opportunity chart, you can see that even with the decreased income, Judy's marginal income tax rate as a single taxpayer increases to the 22% this year, resulting in her anticipated income tax bill increasing by $4,291.

However, by working with their Thrivent Financial professional, and planning for this eventuality ahead of time, Bill and Judy can put their affairs in order to account for Judy's reduced income after Bill's death and address the potential increase in her federal income taxes so she won't be taken by surprise.

As in each of these cases, working with a Thrivent Financial professional, along with a tax advisor, can help you make the most appropriate decisions for your unique financial situation.

These hypothetical examples are for illustrative purposes only. They are not intended to represent the performance of any particular Thrivent Financial product, nor do they take into consideration any investment expenses, such as management fees or sales charges. The results would be reduced if these expenses were included.

Your effective tax rate—the rest of the story

As the examples on the previous page illustrate, being aware of which marginal tax bracket your current income falls into is vital for short-term decision making, and can help you make wise financial decisions today that may benefit you in the next year or two.

However, understanding effective tax rates can also help you prepare for the long term. For example, knowing how to calculate effective rates can help you to better estimate the gross (taxable) income you'll need in retirement to be able to have the lifestyle you want.

So what is the effective tax rate? Simply stated, it is the average rate at which all of your taxable income is taxed. Just divide your total taxes by your taxable income and that's your effective tax rate.

Comparing marginal versus effective tax rates

Using the Window of Opportunity chart on page 2, you can calculate the effective tax rate for a married couple filing jointly as follows.

Adjusted gross income	$100,000
Marginal tax bracket	12%
Total taxes ($1,940 + $6,744)	$8,684
Effective income tax rate ($8,684 ÷ $100,000)	9.0%

Another way to look at this is that your **marginal tax rate** is what you'll pay on the next additional dollar of taxable income, while the **effective tax rate** is what you've paid on all of the previous taxable dollars. Knowing this can help you plan for situations in which changes to either your taxable income or your tax-deductible expenses can move you from one income tax bracket to another.

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