



STRUCTURED SETTLEMENTS FOR MINORS

Financial Security After a Child's Accident

When resolving a case involving an injury to a minor, parents are faced with important financial decisions for their child. Understanding the available options for a minor is an important part of the settlement process.

For all but the smallest settlements, you typically have three choices:

- 1. Court-Protected Blocked Account:** The settlement can be held by the court in a low-interest account until a child reaches legal majority, usually age 18 or 19. Interest earned is taxable. When the child reaches their legal majority, the entire amount is released to the child.
- 2. Trust Account:** The settlement can be placed in a trust and will be managed by a bank or an investment consultant. The investment income is subject to taxation and the account is charged management fees, so a trust won't make sense for all cases. In some jurisdictions the funds are still available to the minor when they reach their legal majority.
- 3. Structured Settlement:** Recognized by federal law since 1983, a structured settlement allows parents to design a stream of tax-free payments tailored to the minor's specific needs. Structured settlements are completely voluntary and have the support of many organizations that advocate for children and persons with disabilities.

It is only in the most catastrophic cases that the court will distribute funds while a child is still a minor, so financial security of the investment and concerns about poor financial decisions when the funds are available to a minor are valid. A structured settlement is the safest, most secure option for injured children. The structured settlement will be funded by one or more top-rated life insurance company annuities – among the safest investments available. Parents have the flexibility to design a payment schedule providing benefits over time, after the child reaches legal majority. This mitigates the risk of the child receiving a large lump sum while still young and inexperienced with managing money. Structured settlements are also exempt from state and federal income taxes if properly established. Additionally, a structured settlement is not subject to management or other ongoing fees.

Structured settlement annuities can be designed to provide payments when a minor is most likely to need additional funds:

- Payments for higher education
- Lump sum for house down payment
- Lump sum for business start-up
- Monthly payments for recurring expenses (rent, car payments, etc)
- Other key life events

"When I represent an injured child, I always encourage the parents to consider a structured settlement, even if the injury isn't severe. A structured settlement is a good, common-sense way to protect any child's financial settlement."

Derek Sells

Managing Partner, The Cochran Firm