

STRUCTURED SETTLEMENTS

The Key to a Successful Financial Strategy



"After I became a paraplegic due to a car accident, I chose a structured settlement. It has been the key to my financial planning - offering me the security to pursue fulfilling opportunities in education, employment, and life in general."

- Megan O'Neil

**World Institute on Disability
Structured Settlement Recipient**

Injuries and accidental deaths are traumatic and destabilizing. That's why the federal government encourages use of a special benefit to guarantee financial peace of mind. It's called a structured settlement and it can give those who are hurting a secure, tax-free income far into the future.

Why are financial needs different for injured people than for others?

If their primary source of income has been interrupted, they need to secure a regular, guaranteed income again as soon as possible. Future expenses for many injury victims – including therapy, drugs, prosthetics, and items not covered or only partially covered by health insurance – cannot be postponed. For anyone who has lost a loved one, grief can lead to poor decision-making that in turn may jeopardize their financial independence.

Is this why the federal government encourages structured settlement for plaintiffs in these cases?

Yes. Federal law recognizes that the injured may require special assistance in the aftermath of tragedy. Christopher Coyne, a finance professor at St. Joseph's University and expert in post-accident financial planning notes, "Conventional investing logic doesn't apply for plaintiffs in injury or wrongful death accidents. Guaranteed income is vital and very few certified financial planners have experience creating plans to meet this need."

So is a structured settlement simply another investment?

No. To qualify for tax-free benefit status, the terms of a structured settlement are actually crafted into the legal settlement itself. If the settlement is not finalized exactly this way, you lose the benefit. A structured settlement represents a one-time opportunity to secure a key element of your financial future on uniquely favorable tax terms.

How safe are structured settlements?

They are backed by many of the strongest and highest-rated insurance companies in America. This is crucial because financial strategies for accident victims and dependents should be based on stable income from low-risk investments. Federal regulations require assigned structured settlements to be backed only by life insurance annuities and government bonds. Moreover, the tax benefits effectively improve your overall financial return without added risk.

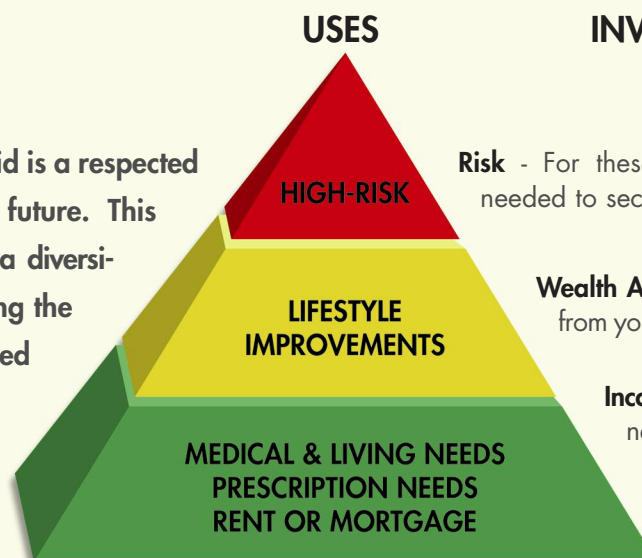
If my goal is stable income, why not buy bonds?

If you have a structured settlement, your payments are guaranteed regardless of changes in the economy. But if you own bonds and interest rates drop, the bond issuer could pay off the bond early, which ends your payments. If you receive more for the bonds than you paid for them, you are subject to taxes on that gain, even if it's a "tax-free" municipal bond. If interest rates rise, you can't secure the higher rates without first taking a loss by selling your bond.

THE FINANCIAL STRATEGIES PYRAMID

Success through a Structured Settlement

The financial strategies pyramid is a respected way to plan your financial future. This pyramid shows how to create a diversified portfolio while still enjoying the special benefits of a structured settlement.



THE ROLE OF THE STRUCTURED SETTLEMENT CONSULTANT

If you decide to put part or all of your settlement into a structured settlement, you will probably work with a trained consultant. Here's why these professionals can be an invaluable resource:

Is the structured settlement consultant just a financial planner?

No; their roles are fundamentally different. A qualified structured settlement consultant has specific experience in accident-related settlement planning, a field unknown to most financial advisors.

Can this consultant tailor the settlement to suit my needs?

"Tailored" is the perfect word. A structured settlement consultant will design a payment stream to fit virtually any future need. You can receive a series of equal payments at regular intervals – for example, monthly payments for 20 years. Or payments can be supplemented with additional tax-free income to cover specific future needs. If you don't have an immediate need for cash, your payments can be deferred for months or years, which improves the overall return by compounding the tax-free interest. Finally, payments can also be guaranteed for life or even the life of your spouse.

How do I determine what my structured settlement payments will be?

This is what an experienced consultant is trained to do. Actual payment amounts depend

on the sum of money available, the details of the accident and prevailing investment returns. The real value, however, is that this professional can design a payment stream that addresses your future needs, while also preserving your eligibility for additional valuable government benefits such as Medicare, Medicaid, supplemental security income, and private care programs based on Medicaid eligibility.

How much do these consultants charge?

Actually, in most cases, they don't charge anything. If your case is resolved with a structured settlement, your consultant's services are paid for by the financial institution that guarantees your future payments.

Structured Settlements The Facts:

- ✓ Explicitly encouraged by federal tax law
- ✓ Guaranteed secure payments
- ✓ Full payments continue even if you earn other income
- ✓ 100% lifetime exclusion from income, dividend and capital gains taxes
- ✓ Helps maintain eligibility for federal and private healthcare programs

"A creative structured settlement consultant can put together a package that will give the injured person flexibility and money when they need it, but also preserve that money over many years."

- Fayrell Furr

Former President,
Southern Trial Lawyers Assn.

"When I was 16, a gun accident during a police training session left me paralyzed. Rather than take a cash settlement, I chose a structured settlement. I am one of those people whose life needed to be put back together after an accident. A structured settlement helped me do it."

The Honorable James Langevin

Member of Congress

Structured settlement recipient

How should I compare the return on a structured settlement with returns from other investments?

Remember that taxes and fees can reduce many seemingly good returns. Let's say your portfolio projections call for a 7 percent return over 10 years. If you have to pay 1.5 percent every year as a management fee and another 2 percent every year for taxes, you're left with a "real" return of only 3.5 percent. Also, if the economy weakens, your long-term funding could fall behind and you may have to make riskier investments to catch up. As an additional plus, structured settlement payments are not subject to the Alternative Minimum Tax.

Medical expenses will be a major future expense. How should this impact my financial strategy?

It may reduce your margin for error. According to federal figures, medical expenses have risen twice as fast as inflation since the mid-1980s. This puts a premium on guaranteeing steady income. Many

investment options advertise strong cumulative returns over 5- or 10-year periods, but these hide risky fluctuations that may impact your ability to pay your bills.

What about a mutual fund that invests in stocks?

Over the long term, diversified stock investing can produce attractive returns. That's why proper planning usually includes funds for this. But as Dr. Frank Reilly, a Finance Professor at the University of Notre Dame Business School, warns, "Many accident victims don't appreciate the roles that risk and volatility have in investing. Short-term volatility, particularly in the early years, can put your future funding at risk. With a structured settlement, you don't have that problem."



"Structured settlements are an effective means to provide long-term financial security. These voluntary agreements require the advice of both counsel and structured settlement

professionals, including independent brokers. The result will be a guaranteed payment stream tailored to each client's specific future needs, including medical and basic living expenses. That's why structured settlements are an excellent foundation for effective financial planning."

Philip Corboy

Plaintiff Attorney & Former chairman, American Bar Association Committee on Medical Professional Liability
