Title:
Financial Security through Structured Settlements

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Summary:
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Article Body:
Structured settlements have become a natural part of personal injury and worker's compensation claims in the United States, according to the National Structured Settlements Trade Association (NSSTA). In 2001, life insurance members of NSSTA wrote more than $6.05 billion of issued annuities as settlement for physical injury claims. This represents a 19 percent increase over 2000.

A structured settlement is the dispersement of money for a legal claim where all or part of the arrangement calls for future periodic payments. The money is paid in regular installments—annually, semi-annually or quarterly—either for a fixed period or for the lifetime of the claimant. Depending on the needs of the individual involved, the structure may also include some immediate payment to cover special damages. The payment is usually made through the purchase of an annuity from a Life Insurance Company.

A structured settlement structure can provide long-term financial security to injury victims and their families through a stream of tax-free payments tailored to their needs. Historically, they were first utilized in Canada and the United States during the 1970s as an alternative to lump-sum payments for injured parties. A structured settlement can also be used in situations involving lottery winnings and other substantial funds.

How a Structured Settlement Works When a plaintiff settles a case for a large sum of money, the defendant, the plaintiff's attorney, or a financial planner may propose paying the settlement in installments over time rather than in a single lump sum.

A structured settlement is actually a tradeoff. The individuals who were injured and/or their parents or guardians work with their lawyer and an outside broker to determine future medical and living needs. This includes all upcoming operations, therapy, medical devices and other health care needs. Then, an annuity is purchased and held by an independent third party that makes payments to the person who has been injured. Unlike stock dividends or bank interest, these structured settlement payments are completely tax-free. What’s more, the individual’s annuity grows tax-free.

Pros and Cons

As with anything, there’s a positive and negative side to structure settlements. One significant advantage is tax avoidance. When appropriately set up, a structured settlement may significantly reduce the plaintiff's tax obligations (as a result of the settlement). Another benefit is that a structured settlement can help ensure a plaintiff has the funds to pay for future care or needs. In other words, a structured settlement can help protect a plaintiff from himself.

Let’s face it: Some people have a hard time managing money, or saying no to friends and family wanting to "share the wealth.” Receiving money in installment can make it last longer.

A downside to structure settlements is the built-in structure (no pun intended). Some people may feel restricted by periodic payments. For example, they may want to buy a new home or other expensive item, yet lack the funds to do so. They can't borrow against future payments under their settlement, so they’re stuck until their next installment payment arrives. And from an investment perspective, a structured settlement may not make the most sense for everyone. Many standard investments can provide a greater long-term return than the annuities used in structured settlements. So some people may be better off accepting a lump sum settlement and then investing it for themselves.

Here are some other important points to keep in mind about structured settlements: An injured person with long-term special needs may benefit from having periodic lump sums to purchase medical equipment. Minors may benefit from a structured settlement that provides for certain costs when they’re young—such as educational expenses—instead of during adulthood.

Special Considerations

- Injured parties should be wary of potential exploitation or hazards related to structured settlements. They should carefully consider:

- High Commissions - Annuities can be highly profitable for insurance companies, and they often carry very large commissions. It is important to ensure that the commissions charged in setting up a structured settlement don't eat up too much of its principal.

- Inflated Value - Sometimes, the defense will overstate the value of a negotiated structured settlement. As a result, the plaintiff winds up with much less than was agreed upon. Plaintiffs should compare the fees and commissions charged for similar settlement packages by a variety of insurance companies to make sure that they’re getting full value.

- Conflict of Interest – There have been situations where the plaintiff's attorney has referred the client to a particular financial planner to set up a structured settlement, without disclosing he would receive a referral fee. In other cases, the plaintiff's lawyer has set up a structured settlement on behalf of a client without revealing the annuities are being purchased from his own insurance business. Plaintiffs should know what financial interest their lawyer may have in relation to any financial services being provided or recommended.

- Using Multiple Insurance Companies – It’s advisable to purchase annuities for a structured settlement from several different companies. This offers protection in the event a company that issued annuities for a settlement package goes into bankruptcy and defaults.

Benefits of Selling A Settlement

A structured settlement is specifically designed to meet the needs of the plaintiff at the time it’s created. But what happens if the installment arrangement no longer works for the individual? If you need cash for a large purchase or other expenses, consider selling your structured settlement. Many companies can purchase all or part of your remaining periodic settlement payments for one lump sum. This can boost your cash flow by providing funds you can use immediately to buy a home, pay college tuition, invest in a business or pay off debt.

If you’re considering cashing out your structured settlement, contact your attorney first. Depending on the state you live in, you may have to go to court to get approval for the buyout. About two thirds of states have laws that limit the sale of structured settlements, according to the NSSTA. Tax-free structured settlements are also subject to federal restrictions on their sale to a third party, and some insurance companies won’t assign or transfer annuities to third parties.

When selling your structure settlement, check with multiple companies to make sure that you get the highest payoff. Also, be sure the company buying your settlement is reputable and well-established. And keep in mind that if the deal sounds too good to be true, it probably is.