

Structured Settlement: Financial security after a child's accident

If a child is in an accident, strains can be severe. Medical, financial and especially emotional concerns can be a huge burden. So can the uncertainties of rehabilitation. Fortunately, a structured settlement provides a safe and financially secure alternative.

Judges are often hesitant to approve large cash settlements to resolve minors' accident cases. They want to ensure that the funds go to the child's needs and that the family isn't victimized. A structured settlement can help with both issues, often resolving your case more efficiently than an all-cash settlement.

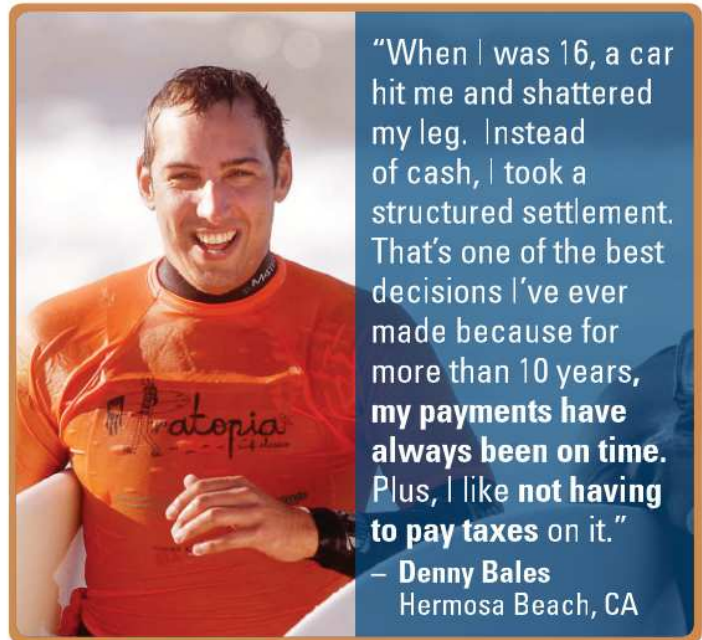


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Q&A

Q: My child has been in an accident. What options do I have for the financial settlement?

A: For all but small accidents, you typically have three choices.

- First, the settlement can be held by the court in a low-interest account until your child reaches legal maturity, usually age 18 or 19. The money is then released to your child.
- A second option is to place the settlement in a trust managed by a bank or investment consultant. But this may have drawbacks because all the investment income is subject to taxes. There are also likely to be ongoing management fees.
- A better option is a structured settlement. Recognized by federal law since 1983, a structured settlement allows you and your attorney to design a stream of tax-free income tailored to your child's specific needs. Structured settlements are completely voluntary and have the support of many organizations that advocate for children and persons with disabilities.

Q: My biggest concern is people taking financial advantage of my child. Which option provides the most protection?

A: A structured settlement is the safest, most secure option for your child. First, your child's settlement will be funded by one or more top-rated life insurance company annuities – among the safest investments available. Second, there is no need to worry about investment risks. Third, you have the flexibility to schedule payments well after your child reaches legal maturity. This way, your child will not receive a large lump sum while still young and inexperienced with managing money. Trusts and court registries do not provide any of these protections.

Q: What advantages does a structured settlement have over a trust?

A: First, there's security. Your structured settlement payments are regulated by Insurance Commissioners in all 50 states and guaranteed against reductions due to interest rate or economic changes. In contrast, a trust can be hit with losses due to general market drops and bad investments.

Structured settlements are also exempt from state and federal income taxes, while trusts are taxed at a rate equal to or higher than regular individual income taxes. Finally, trusts often require annual management fees, which further reduce the overall return. A structured settlement has no management or other fees.

Q: Does it cost a lot to set up a structured settlement?

A: Generally, there is no cost to your child. By comparison, a trust can cost thousands of dollars to establish, plus additional annual fees for taxes, tax preparation, and management.

“As United Cerebral Palsy [provides] services to people with disabilities, structured settlements are often the most effective tool for those individuals and their families to achieve long term financial security.”

– Stephen Bennett
President, United Cerebral Palsy

Q: My child will require care long after he becomes an adult. Can a structured settlement meet this need?

A: Absolutely. A structured settlement allows you to tailor income to your child's needs long after he or she becomes an adult. The payments may include occasional lump sums for expenses such as college tuition or an operation. This tax-free income can be guaranteed for a certain number of years or for your child's life, so that he or she never outlives this income. There is no similar guarantee with a trust.

“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

Q: How does a structured settlement compare with a 529 plan?

A: Structured settlements and 529 plans both provide tax-free growth. However structured settlements are free from many of the 529 plan's drawbacks. Payments from a structured settlement are guaranteed, while 529 payments are not.

Structured settlements are also more flexible because they can fund private tutoring, post-graduate study or trade school tuition. 529 plans will not pay for any of these and often severe tax penalties must be paid if the 529 funds aren't used for educational purposes.

Q: Since this case involves a minor, I need court approval. How should that impact my decision?

A: A structured settlement is one of the best ways to gain speedy court approval. Structured settlements enjoy significant popularity among judges because of their proven ability to protect minors.

Q: If I take a structured settlement, will I be required to report back to the court?

A: Courts almost never require reporting when you choose a structured settlement because the income stream will not change. By contrast, if you use a trust or a court account, you typically will need to submit regular income and expense reports that explain why transactions were in your child's interest.

