

Minors and Structured Settlements



WHAT IS A STRUCTURED SETTLEMENT?

At one time, personal injury and wrongful death claims were only settled with the exchange of a lump sum of money. Unfortunately, cash-only settlements that are meant to last for decades are often exhausted within a few years.

A structured settlement is a settlement option that was developed in response to this outcome; it provides greater security and certainty to people made vulnerable by injury. While a conventional settlement consists of a one-time sum of money, a structured settlement usually includes cash at the time of settlement, plus guaranteed periodic payments customized to meet the needs of a minor child for years into the future. Under the terms of the settlement, a fixed annuity is purchased that will make future payments to the child, usually once he or she reaches the age of majority under state law.

WHY CHOOSE A STRUCTURED SETTLEMENT?

Minor settlements are usually subject to more laws and requirements than settlements entered into by adults. This process allows the courts to ensure the settlement is fair and in the best interest of the child. Except in rare occasions, minor children are not able to accept their settlement money until they are of legal age, which means the money must be safe-guarded until then.

Structured settlements offer many advantages over alternatives like a Certificate of Deposit (CD) or blocked savings account. Payment plans can be developed to cover costs for future medical needs, college, car payments, purchase of a first home and other life events. Structured settlements offer unmatched protection against future loss or dissipation of funds. People don't have to be concerned with making a single payment last a lifetime.

FAVORABLE TAX STRUCTURE OF STRUCTURED SETTLEMENTS

Payments received in the settlement of physical injury cases are completely tax-exempt at the federal and state level, whereas investment earnings from all-cash settlements are generally taxable.

STRUCTURED SETTLEMENTS AND PLANNING FOR COLLEGE

Structured settlements provide payment flexibility and security when planning for college expenses such as tuition, room and board, books and meal plans. Compared to traditional 529 college savings plans, the child will be able to use the money penalty-free should they decide not to pursue secondary or higher education. Even if the money was originally intended for college, the child will be able to use it for any purpose, without penalty. There are no requirements on how structured settlement proceeds are to be spent.

WILL A STRUCTURED SETTLEMENT AFFECT MY CHILD'S ABILITY TO QUALIFY FOR COLLEGE SCHOLARSHIPS AND FINANCIAL AID?

A child's ability to qualify for financial aid is based on the Expected Family Contribution (EFC). The EFC is a measure of the family's financial strength and is calculated according to a formula established by law. Taxed and untaxed income, assets, and benefits (such as unemployment or Social Security) are all considered in the formula. Also considered are family size and the number of family members who will attend college or career school during the year. The information reported on the Free Application for Federal Student Aid (FAFSA) is used to calculate EFC. Schools use the EFC to determine federal student aid eligibility and financial aid awards. If structured settlement income is included on the FAFSA, it will likely affect financial aid. Consult your tax advisor.

KIDDIE TAX

Gains on investments owned by minors are typically taxable under a special set of tax rules called the Kiddie Tax. Under the Kiddie Tax, gains on a minor's injury settlement that is taken in cash and invested, including in a blocked savings account or CD, are typically taxed at the highest marginal tax rate of the minor's parents. Unlike most investments, the Kiddie Tax does not apply to structured settlement payments, which are never taxable.

SAMPLE PAYOUT

An 8-year-old child receives \$20,000 from a personal injury settlement which is invested until it provides a lump sum payout at age 18.

OPTION	PAYOUT AT AGE 18	RATE	INTEREST EARNED	IS INTEREST TAXED?
Structured Settlement	\$25,500	2.7%	\$5,500	No
CD	\$23,672	1.7% for 5-year CD	\$3,672	Yes
Blocked Savings Account	\$21,874	.9% APR compounded monthly	\$2,187	Yes

Actual rates are based on current market conditions. Structured settlement rates will be provided by Arcadia. The information or materials presented herein by Arcadia Settlements Group, Inc. and its affiliates and subsidiaries are provided solely for informational purposes as a convenience. Neither Arcadia nor its professionals are licensed to sell variable or securities products, nor do we provide legal, tax, accounting or investment advice. Please consult your legal, financial and tax advisors for specific recommendations or comments regarding this material as individual circumstances may vary.



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