

MINORS' SETTLEMENTS

Financial decisions made now can have a long-term impact on a minor's financial future and quality of care. Investment recommendations are heavily dependent on three main factors: the age of the claimant, the amount of the award, and any future health considerations. Each individual case should be carefully evaluated to determine the best solution.

Considerations

There are a number of questions that must be answered when determining the best investment vehicle(s) for a minor, including:

- Does the minor have any day-to-day financial or medical needs?
- Are there transportation, adaptive equipment, home modification or housing needs to better accommodate the minor?
- Will the minor need money to supplement or replace future earnings?
- Does the minor intend to go to college or purchase a home in the future?
- Is it likely that the minor will be able to appropriately manage funds at the age of majority, or should future distributions be staggered?

Common Settlement Options for Minors

A minor with relatively limited injuries or a minor receiving an award due to the injury or death of a loved one will have completely different needs than a catastrophically injured minor. Ultimately, the plan to manage the settlement funds must be developed to meet the best interests of the minor. Here are some common options:

Structured Settlement: A qualified structured settlement is generally arranged to begin when the minor reaches the age of majority or sooner, if the proceeds are paid directly into a trust. Payments can be made on a monthly, quarterly, semi-annual or annual basis, and can also include lump sums for future plans, such as college or the purchase of a home. The investment growth on the funds is 100% income tax-free, the rate of return is guaranteed¹, and there are no ongoing fees or expenses.

Minor's Trust: Depending on state laws, final distribution from a minor's trust can be delayed well beyond the age of majority to prevent the minor from receiving a large lump sum at one time. There are fees associated with drafting the trust and paying a trustee, but these are necessary protections to have in place for the minor. Trust interest income is considered taxable income, but the trust itself can sometimes deduct certain distributions related to medical costs and the trustee fees.

Combined Approach: Another option is to combine a structured settlement and a trust. Structured settlement payments can be paid directly to a trust, or as an alternative, part of the settlement proceeds can be used to fund the trust, while the rest can fund a structured settlement. Aside from the tax benefits, the advantage to this approach is the future protection it affords. The trust can be used to provide for the child's needs prior to the age of majority, while the structured portion can be utilized as an ongoing source of future income.

Registry of the Court, Surrogate Bank Account, or Blocked Savings Account: In some states, additional options exist when it comes to handling the proceeds for a minor's settlement. While this is a very safe investment option, it does come with a few pitfalls. The money usually sits in an account that draws little interest, and any growth on the funds is subject to taxes. The minor will typically receive full access to the funds as long as they are not deemed to be incapacitated upon the age of majority.

For more information regarding minors' settlements, contact Sage Settlement Consulting today.

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