



Structured Settlement FAQ

Deciding how to handle settlement proceeds can be challenging, and Sage is ready to help. Here are the answers to some common questions we receive.

How does a structured settlement work?

Instead of receiving settlement proceeds in a cash lump sum, a structured settlement allows the claimant to receive the payments over time in a series of guaranteed¹ periodic payments. The claimant chooses the payment schedule and the structured settlement carrier. Once the settlement agreement is finalized, the defendant or insurer pays the settlement funds to a third-party assignment company, which assumes liability. The assignment company purchases an annuity from the structured settlement carrier. The carrier then makes a series of periodic payments based on a previously agreed-upon timeline and amount. To take advantage of structured settlements or attorney fee deferrals, the final settlement agreement must include specific language.

What are the benefits of choosing a structured settlement vs. a lump sum?

Depending on the type of case, structured settlement payments are income tax-free or income tax-deferred, including any growth on the funds. Conversely, if a cash lump sum settlement is invested in a financial vehicle other than a structured settlement, then any growth on the investment will most likely be taxable. Structured settlements provide a range of additional benefits, including guaranteed¹ payments, a guaranteed rate of return, and protection against spending the settlement money too quickly.

How stable are the insurance companies that provide structured settlements?

Most of the companies that issue structured settlement annuities have withstood the most dramatic financial events in United States history, including The Great Depression, the 2008 financial crisis, and most recently, the COVID-19 pandemic. Additionally, both state and federal agencies regulate insurance companies. Sage only offers structured settlement annuities through highly-rated, well-capitalized life insurance companies.

What if interest rates are low- do structured settlements still make sense?

Unlike other financial vehicles, structured settlements do not have ongoing costs or overhead expenses. When combined with the guaranteed interest rate (determined at lock-in), structured settlements often provide comparable returns. More importantly, structured settlements offer a safety net that few other financial vehicles can provide. Even if the market is down, an annuitant's structured settlement payments remain constant. Claimants who are interested in higher potential returns may want to consider incorporating market-based structured settlements into their overall settlement plan.

Who are good candidates for structured settlements?

Structured settlements are a flexible option that can benefit claimants of all ages, from minors to retirement-age adults. Contingency fee attorneys are also eligible to leverage the tax benefits of deferred fees via a structured settlement. Structured settlements can also serve as a cost-effective funding option for special needs trusts and Medicare Set-Asides.

¹Guarantees are subject to the claims-paying abilities of the issuing insurance company.

What types of cases can benefit from structured settlements?

Structured settlements are an excellent tool for resolving a variety of settlements. Settlement proceeds from personal injury, wrongful death, and workers' compensation cases are eligible for income-tax free structured settlements. Many other types of non-injury settlements (e.g., divorce, sexual harassment, discrimination, and environmental claims) are eligible for income tax-deferred structured settlements.

Can I choose a structured settlement after my settlement agreement is finalized?

Unfortunately, no. The decision to utilize a structured settlement must be determined before finalizing the settlement. Plaintiff attorneys who want to defer all or a portion of their contingency fees must also make that decision before the settlement is finalized. The final settlement agreement must include all appropriate language allowing the claimant and the plaintiff attorney to reap the full tax benefits of the settlement.

Can I sell my structured settlement later if I want cash?

Structured settlements are designed to preserve funds for the long-term. Companies that purchase structured settlements from annuitants—factoring companies—often pay the annuitant pennies on the dollar for their structured settlement policies. Additionally, many states require court approval to sell structured settlement policies. Claimants who are interested in structured settlements should work with a structured settlement consultant to integrate a structured settlement into a comprehensive settlement plan that takes future needs into account, making the desire to sell in the future far less likely.

What happens to structured settlement payments if the claimant dies?

If the claimant passes away prematurely, any remaining guaranteed structured settlement payments will continue to be paid to the designated beneficiary. If a specific beneficiary is not designated, the payments will be made to the claimant's estate.

Why wouldn't I want to take a lump sum cash settlement and invest it on my own?

One of the key benefits to structured settlements is the tax treatment. Depending on the type of case, structured settlements are either income tax-free or income tax-deferred, including growth. Even if the cash lump sum from a settlement is income tax-free, if any portion of those funds are placed in a traditional investment, the growth on the funds may be taxable.

What is the best time to start working with a settlement consultant?

The earlier, the better. By engaging a settlement consultant as soon as a case is opened, the consultant has time to learn the claimant's individual needs and goals, review all possible settlement options, and help mitigate complications that could delay the final settlement, including outstanding liens, potential loss of needs-based government benefits, and probate issues.

How is a structured settlement consultant paid?

Neither the claimant nor the claimant's attorney pays the structured settlement consultant directly. Instead, the structured settlement consultant receives a commission from the insurance company that issues the structured settlement policy. Structured settlement consultants are not captive agents of any particular structured settlement provider, which means that they will only consider the best interests of the claimant when recommending products and services.

**With local offices across the country, our team offers
award-winning comprehensive settlement planning services. Contact us today.**