THE STRUCTURED SETTLEMENT REPORT

February 1999 *Summit Settlement Services, Inc.* (888) 673-8853

Maximize Your Settlement Dollars Take Advantage of the Knowledge of Your Certified Structured Settlement Consultant

Your structured settlement consultant has been in the business for 15-20 years, and they have a wealth of knowledge to help you bridge the gap between the "money available to settle a case" and the "needs of the plaintiff." Take advantage of this knowledge.

The following information will provide a brief overview of a few quoting strategies and settlement options available.

MEDICAL <u>UNDERWRITING</u>

When a plaintiff is receiving payments for the remainder of their life, <u>always</u> perform medical underwriting. The plaintiff's medical condition, regardless of whether it is a cause of action in the claim at hand, is relevant. If, hypothetically, the plaintiff lost a hand in a workers' compensation cause of action, his entire medical history may help resolve the claim. Let's say the plaintiff is an overweight diabetic with hypertension. All of these facts <u>regardless of their origin</u> are helpful in underwriting the plaintiff, and thus reduce the cost of an annuity.

Simply provide your consultant with current medical records on the plaintiff.

<u>QUOTING STRATEGIES</u>

<u>Step Annuities</u>

Take advantage of "step" annuities. Often the plaintiff is requesting a large COLA (cost of living adjustment), and this may or may not be financially feasible. Defer the compounding factor and reduce the settlement cost to the defendant.

For example, provide $1,000/mo for 7 years, then $1,300/mo for 7 years, then $1,750/mo for 7 years; with a final $2,500/mo for life thereafter, increasing at 4%, compounded annually. By deferring the 4% COLA by 21 years, you have greatly reduced the settlement cost to the defendant. Let's prepare a "sample" quote to illustrate the benefits of step-rate annuities.

Plaintiff: <u>John Doe</u>
Male Age 35
overweight, diabetic
with hypertension
RATED-AGE <u>62</u>

If you gave John Doe $1,000/mo with a 4% COLA, beginning immediately the monthly payments would increase, as follows:

Year	Payment
1	$1,000
2	$1,040
3	$1,082
4	$1,125
5	$1,170
6	$1,217
7	**$1,265**
8	$1,316
9	$1,369
10	$1,423
11	$1,480
12	$1,539
13	$1,601
14	**$1,665**
15	$1,732
16	$1,801
17	$1,873
18	$1,948
19	$2,026
20	$2,107
21	**$2,191**

Package "A"

A 35 year old male has a life expectancy of 45 additional years, so the full life expectancy payout of $1,000/mo with a 4% COLA is $1,452,353. The cost to provide this annuity, based upon a healthy male, age 35 is $351,858. However, since we performed medical underwriting, and obtained the rated-age of 53, the true, actual, annuity cost to the defendant is $253,105 ($108,753 saved).

Package "B"

If we do the step rate annuity, providing $1,000/mo for 7 years, then $1,300/mo for 7 years, then $1,750/mo for 7 years, with $2,500/mo for life thereafter with a 4% COLA, the payout over the course of the payment schedule will be $1,512,678. The cost to the defendant will be $177,055.

RECAP

The following chart illustrates the differences between package "A" and "B:"

	"A"	"B"
PAYOUT:	$1,452,153	$1,512,678
COST:	$192,892	$177,055

Had we increased the COLA beginning in the 22nd year to either 5% or 6% it would effect the payout and costs, as follows:

Step Payout at varying %:
4%: $1,512,678
5%: $1,675,260
6%: $1,864,667

Cost Analysis based on varying percentage rates on last step:
4%: $177,055
5%: $178,237
6%: $179,496

The cost of adding a larger COLA, later down the road is relatively inexpensive. It should be noted that John Doe will be physically 57 years of age before his COLA begins compounding; however, we have hedged against inflation by increasing his monthly payments every seventh year in the interim.

From an underwriting perspective, John Doe is currently 62 years old. With the deferral of 22 years before the COLA begins, he is actually 84 years of age on paper. John Doe nears the end of his life expectancy from a medical underwriting point of view; therefore, the cost of the COLA is nominal.

Great savings can be achieved by deferring the COLA on plaintiffs with reduced life expectancies.

Guarantees

The following chart will provide you with an example of the costs associated with guaranteeing the periodic payments for John Doe. Generally speaking, a guarantee that does not exceed ones anticipated life expectancy can be relatively inexpensive.

John Doe, male
$1,000/mo for life with varying guarantee periods based on "healthy male, age 35" v. "substandard male, rated to age 62;" said payments increase at 4%, compounded annually

Healthy Male age 35	Guar Period In Yrs	Substandard Male, rated to age 62
$361,868	life only	$192,892
$362,785	10 yrs	$202,527
$366,548	20 yrs	$232,916
$373,704	30 yrs	$283,879

The Cost of the 30 year guarantee to the standard (healthy) male, age 35 was $11,836 or a nominal 3% additional funds. Conversely, the cost of the 30 year guarantee on the sub-standard, male, rated-age 62 was $90,987, or 47% more money. Once the guarantee period is extended beyond the 15 year life expectancy of a 62 year old male, we began to quote against our medical underwriting.

Life Contingent Lump Sums

The cost of lump sum payments can be greatly reduced by making these payments on a life contingent basis (payable only so long as the Plaintiff is alive).

The following example will illustrate the cost of "guaranteed" v. "life contingent" (if living) lump sums for John Doe, a male, age 35, rated to age 62:

$50,000 at age 40
$75,000 at age 45
$100,000 at age 50
$150,000 at age 55
$225,000 at age 60
$350,000 at age 65
$950,000 = Total Payout

The cost of an annuity with all of these payments "guaranteed" is $292,838. If all payments were payable on a life contingent basis, the cost has been reduced to $155,361 ($137,477 less).

If the first 3 payments were payable on a "guaranteed" basis with the remaining 3 payments on a "life contingent" basis, the cost of the annuity would be $182,069.

The following chart depicts the costs of these 6 lump sums on a guaranteed v. life contingent basis:

Pmt	Guar-anteed	Life Contingent
50K	$39,494	$35,938
75K	$43,993	$35,209
100K	$43,626	$29,198
150K	$48,670	$24,709
225K	$54,297	$17,307
350K	$62,818	$13,000

It should be noted that the cost of guaranteeing the first few payments is relatively equivalent to the "life contingent" pricing, because the odds are that the rated-age 62 year old male would be alive and well to receive these payments. Once John Doe has lived beyond his projected life expectancy (a 62 year old male has a life expectancy of 15 additional years), then the difference in cost, guaranteed v. life contingent, becomes wider. It is at this point that life contingent payments should be considered.

Joint and Survivor Annuities

When a Plaintiff and their Spouse both have a cause of action, the settlement could include periodic payments payable on a joint and survivorship basis. In this way, the surviving spouse is guaranteed to continue to receive periodic payments for the remainder of his/her life.

For example, John and Mary Doe were both involved in an automobile accident. The settlement includes $1,000 per month for their joint lives with a minimum of 10 years guaranteed. If John does 1 year after settlement, then Mary will continue to get the payments for the remainder of her life. If both John and Mary were die at the end of the first year, post settlement, then their heirs will continue to get the $1,000/mo for the remaining 9 years of the guarantee period.

If John and Mary both live to a ripe old age, then the periodic payments will continue until the death of both parties. For example, John dies at 95, and Mary's payments continue until she finally expires at age 103.

SPECIAL NEEDS TRUSTS

If properly constructed, a plaintiff can settle a tort claim and receive settlement funds into a Special Needs Trust and retain their Medi-Cal eligibility. The settlement could include a structured settlement annuity making payments directly into the Trust. The Trust funds can be used to pay for medical care and expenses in excess of Medi-Cal "approved" expenses.

REVERSIONARY INTERESTS

Whenever a Plaintiff has large future medical expenses, i.e., liver trans-plant, and the exact surgery date is unknown, the Defendant may elect to establish a Reversionary Medical Payments Trust. A structured settlement annuity can be purchased, taking advantage of the substandard medical underwriting (rated-age) to funnel payments into the Trust during the lifetime of the Plaintiff. The corpus of the unused portion of the Trust will revert back to the Defendant upon the death of the Plaintiff.

During the lifetime of the Plaintiff, the Trustee will administer the Trust, making payments to medical providers for benefit of the Plaintiff.

Homes can be purchased for a Plaintiff with no heirs that can revert back to the Defendant upon the death of the Plaintiff.

Reversionary interests are appropriate in catastrophic injury claims, particularly when the Plaintiff has no heirs.

SUMMARY

The foregoing will provide you with a brief overview of some of the options available to the Defendant in the settlement of a physical injury claim.

Your structured settlement consultant can provide additional information on the **structuring of attorney fees**, **installment/cash refunds, secured creditor status, daily rates, commutation riders, rate commitments, bond trusts, and worker's compensation** to include remarriage endorsement, elimination of liability endorsement, reinsurance, and qualified assignments.

The structured settlement consultant has a wealth of knowledge and experience at their fingertips.

Dorothy Scanlan Stevens

Certified Structured Settlement Consultant

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