# ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.


## Singer Wealth

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## Structured Settlements

When people are injured, and they file a lawsuit to recover their damages; any damages they collect through settlements for pain and suffering are income tax free under federal tax law. No 1099 will be issued.

Claimants are often encouraged to structure their settlement with an insurance company to defer a portion of the settlement to either a future date or to receive a future income stream. There are two potential advantages to structuring their settlement.

The first is that all future payments that they receive including the interest will be income tax free. For instance, if they deferred collecting $250,000 of their settlement today in exchange for receiving $450,000 in 8 years, that additional $200,000 of interest will also be tax free.

A second benefit is that it's harder for claimants to blow or mismanage future annuity payments. However, it is not impossible. You may have seen commercials on TV with factoring companies inducing people to sell their structured settlements (at a substantial discount). “Why wait for your money? Get your cash today!” Many people do often respond to those ads and attempt to liquidate their settlements early.

There are laws in place designed to protect the sellers from getting taken advantage of. Therefore, the factoring company will need to file a petition in state court to seek approval of the transaction. However, if the seller can offer a good reason like, “I am broke and I need money now” the court will generally approve the sale. This presents an opportunity for astute investors to receive above market interest rates on very safe, contractually guaranteed, secondary market insurance payment streams.

Currently the 10-year treasury is yielding about 4.9% and if you went directly to an insurance company to purchase a 10-year annuity you could earn about 5% per year of guaranteed interest. However, one could purchase on the secondary market a similar guaranteed payment stream issued by the same insurance company and earn 6.5% per year. That is a considerable difference.

Source: CNBC