

Work Comp Roundup

Reduce Your Workers Comp Costs

5 Structured Settlement Scenarios You May Not Be Utilizing

Michael B. Stack · Monday, May 8th, 2017



A structured settlement creates a 'win' for all parties to a workers' compensation settlement; the employer, the payer, the injured worker, and the attorneys. So when is the right time to use a structured settlement? Conventional wisdom is that structured settlements should be used as a financial tool when the settlement value reaches an arbitrary number such as \$100,000. This business-as-usual approach has made countless workers' compensation programs engage in practices that only drive up the cost of

doing business and have a negative impact on their bottom line. Now is the time to reconsider your approach as to the right time to use and consider a structured settlement.

What is a Structured Settlement?

A structured settlement is a valuable piece of a comprehensive claim settlement strategy. The claimant will receive the full value of their settlement over a period of time via a combination of a one-time lump sum payment paid at the time of settlement, plus annual annuity amounts. Structured settlements come in various forms and can include the following payment mythologies that meet a desired end.

- Deferred Lump-sum Payments, which include larger than the regular periodic payments via a schedule paid at pre-determined dates;

- Flexible Settlement Plan, which allow flexibility for claimants requiring various special needs; and
- Period Certain Annuity, which typically include larger periodic payments that end at a date or age certain.

5 Structured Settlement Scenarios

1. Realizing Cost Savings in Low Dollar MSAs

Consider the scenario with a forty-six year old employee who is currently a Medicare beneficiary. He sustains a low back injury, disputes arise in the claim, and litigation occurs. The matter is ultimately resolved with an MSA allocation of \$38,893.

Using a structured settlement in this case allows the insurance carrier to realize substantial savings.

Benefit	Cost	Guaranteed Yield	Expected Yield
Cash to Set Up MSA	\$2,357	\$2,357	\$2,357
Annual Payment to Replenish MSA Account*	<u>\$22,357</u>	<u>\$0.00</u>	<u>\$36,529</u>
TOTAL	<u>\$24,714</u>	<u>\$2,357</u>	<u>\$38,893</u>

* Settlement Based on CMS Approval Male, Date of Birth 9/19/1969 Rated Age: 50. \$1,141.00 per year beginning 1 year from approvals, payable for 32 years, only if living

**Example provided by Ringler

Proposed Total MSA Amount:	\$38,893.00
Cost of Seed & Annuity Payments:	<u>\$24,714.00</u>
Savings Realized using Structured Settlement	<u>\$14,179.00</u>

Using a structured settlement relies on an annuity mechanism that guarantees a rate of return on the money invested via a life insurance program. In this case, the workers' compensation insurance carrier does not pay the full allocation amount. Instead, they pay only \$24,714 to fund the full MSA, resulting in savings of \$14,179.

2. Alleviate Injured Worker's Future Medical Challenges

Convincing the injured worker to settle can be a challenge. However, keeping the case open can often be much more problematic due to future medical issues. The insurance carrier's Utilization Review guidelines must constantly oversee the medical care. This often results in significant frustration from system friction, red tape, and denials of treatments and medications.

A structured settlement for future medical costs, working in partnership with a professional administrator, can give the injured worker the freedom to manage their medical treatment how they wish. The professional administrator sets up a dedicated bank account and gives the injured worker a unique card to use at his pharmacy and doctor's office. The injured worker never touches the bill, receives discounts from bulk pricing, has freedom of choice, as well as security and peace of mind that his future medical issues will be handled appropriately and timely.

3. Bridge The Gap In Settlement Negotiations

Settlement negotiations often stall due to a difference in opinion on the value of the

claim. A common example is where the claims professional evaluates the settlement at \$300,000, while the employee's attorney, demands \$400,000 to settle the claim. The claims professional and the employee's attorney may be able to bridge the gap with a structured settlement.

A structured settlement bridges the gap with the injured employee receiving \$400,000 while the insurer pays \$300,000 (slightly more or slightly less) to be invested with a life insurance company in an annuity. This is possible with a structured settlement as the amount of the settlement is paid out over time with periodic payments. The injured employee and the employee's attorney will receive the \$400,000 over the time span set in the structured settlement (either the employee's life time or a specific number of years).

4. Peace of Mind for Permanent Partial or Permanent Total Disability

Anytime an injured worker experiences a permanent partial or permanent total disability it creates an immeasurable impact on their life and that of their family. In addition to ongoing medical expenses, the loss of the income raises questions about immediate needs, such as modified vehicle replacement and home modifications. There can also be additional concerns about long-term expenses such as college funding for children. Structured settlements can be used to pay for these and other bills, providing a comfortable lifestyle for the family following a workplace injury.

5. Eliminate Contingency-Fee Attorney Income Peaks & Valleys

Many attorney's work on a contingency fee basis resulting in significant peaks and valleys in income based on the outcome of their cases. An attorney who leverages a structured settlement for their fees can set up a deferred compensation plan guaranteed to cover their annual operating budget, and freeing the attorney to focus on current and new cases.

Conclusions

It is rare that an injured worker — or anyone — has the money management skills and discipline to make a large sum of money last a lifetime, especially when there are medical issues to consider. In fact, research shows most people have depleted the entire lump sum after just 5 years. A structured settlement can give a guaranteed, tax free income stream for life.

Now is the time to reconsider your approach in how you are using structured settlements. A structured settlement provides the necessary “win” for all parties and can provide significant savings to every workers’ compensation program.



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