

## BACKGROUND

### STRUCTURED SETTLEMENTS

A structured settlement is a future stream of payments that is paid to the injured party exempt from State and Federal income taxes. Instead of taking the entire lump sum at the time of settlement, the victim of a personal injury, or the surviving family members of a wrongful death, have the option of receiving payments for life through a structured settlement annuity contract issued by a reputable life insurance company.

### HISTORY

While it may seem contrary, experiencing a large financial settlement is a life-changing event that, for many, increases the difficulty of proper financial planning exponentially. In order to protect victims of personal injury cases — often from themselves — Congress enacted the Periodic Payments Act in 1983.

In addition to dealing with the stress of their injury, many victims are suddenly faced with investment or loan requests from relatives or friends. That, coupled with the potential life changes they are now forced to deal with as a result of their injury, causes some people to behave irrationally and deplete their new-found wealth at an alarming rate. Others are simply not equipped to invest their new-found wealth and devote the time and energy into managing those assets.

Since many victims of physical injury cases can no longer work because of their injuries, they have nowhere to turn but to government-run social, medical and public assistance programs. The major portion of the Periodic Payments Act removed all State and Federal tax obligations for those who took a future payment in a structured settlement. It also protected funds in structured settlements from creditors.

### BENEFITS

**Tax Advantages:** The major advantage of structured settlements is the fact that payments made via a structured settlement are non-taxable by State and Federal tax guidelines outlined in Section 104(a)(2) of the Internal Revenue Code. **Every payment is 100% tax exempt.**

**Flexibility:** Structured settlements are extremely flexible and simple. They can be designed for virtually any need or circumstance and allow the injured party to tailor payments over his or her lifespan. For example:

- You can structure all or just a portion of your settlement. Most financial, legal and tax professionals advise clients to structure some part of their settlement to ensure their future life needs can be met.
- Other customizable periodic payments could be dispersed every other week to mirror your regular paycheck; as regular monthly payments; or a variety of other timeframes, amounts and/or combinations of both.
- As part of the structure, larger lump-sum payments can be made every few years to anticipate life events such as future medical expenses, payoff of mortgage and auto loans, college tuition and expenses, even regular vacations.

**Security:** Structured settlements provide long-term payments that are guaranteed<sup>1</sup> by a life insurance company. This means a future steady stream of income that allows victims to take care of themselves and their families with funds that also provide peace of mind.

### INFORMATION/RESOURCES

- National Structured Settlements Trade Association Web site: [www.nssta.com](http://www.nssta.com)
- AIG American General: [www.americangeneral.com/structuredsettlements](http://www.americangeneral.com/structuredsettlements)

AIG American General, [www.aigag.com](http://www.aigag.com), is the marketing name for the insurance companies and affiliates of American International Group, Inc. (AIG), [www.aig.com](http://www.aig.com), which comprise AIG's Domestic Life Insurance Operations.

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<sup>1</sup> Guarantees are subject to the claims-paying ability of the issuing insurance company.