Best Practices Series
Structured Settlements

To manage the cash flow risks associated with an organizations claims business, successful firms are employing a comprehensive Structured Settlement process to address the strategic, financial, operational, and hazard risks that they face.

Recent Findings

We have conducted several surveys, and have recently been engaged in various claim projects, where structured settlements were widely utilized to reduce expense and ensure quality financial outcomes. A structured settlement is a financial or insurance arrangement, including periodic payments, that a claimant accepts to resolve a personal injury tort claim or to compromise a statutory periodic payment obligation.

They have been utilized extensively for high value personal injury cases in the past. However more recently, they are used for a wide variety of circumstances including Medicare Set-Asides and Special Needs Trusts.

Key Solutions

When the self-insurer or insurer settles a case with a claimant, it finds itself with a long term payment obligation. To fund the obligation, the defendant takes one of two typical approaches; purchase an annuity from a life insurance company ("buy and hold") or delegates its periodic payment obligation to a third party who purchases an annuity ("assigned").

"Buy and Hold" Case

In this type of case, the defendant retains the periodic payment obligation and funds it by buying an annuity from a life insurance company. The payment stream purchased under the annuity matches exactly, in timing and amounts, the periodic payments agreed to in the settlement agreement. The self insured defendant or insurer owns the annuity and names the claimant as the payee under the annuity, thereby directing the annuity issuer to send payments directly to the claimant. If any of the periodic payments are contingent on someone continuing to be alive, then the claimant (or whoever is determined to be the measuring life) is named as the annuitant under the annuity.

"Assigned" Case

In an assigned case, the self insured defendant or insurer does not wish to retain the long-term periodic payment obligation on its books. Accordingly, the defendant or insurer transfers the obligation, through a legal device called a qualified assignment, to a third party. The third party, called an assignment company, will require the defendant or insurer to pay it an amount sufficient to enable it to buy an annuity that will fund its newly accepted periodic payment obligation.

While each method has its advantages, there has been an overwhelming acceptance of the "assigned" case method to reduce financial exposure and cash flow obligations, and eliminate liability from the risk takers balance sheets. Either methodology will allow an organization to gain strategic advantages over the competition and to improve their financial condition.

About Blackburn Group

Blackburn Group is an enterprise risk management professional service firm specializing in a variety of industries. Our partners have over 30 years experience delivering advanced product and service solutions for the risk and insurance industries.

Blackburn Group, Inc. | www.blackburngroup.com | sales@www.blackburngroup.com | 23 Bremen Circle, Penfield, NY 14526 USA