STRUCTURED SETTLEMENTS REVIEW

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VOLUME 35 **NUMBER 1** **February 2025**

A Misspent Youth…

Those of you who know me well have no doubt heard some of the tales of my misspent youth. In fact, I've written about a few of them in this very publication. The moral of these stories is usually: "Don't do what Frank did or you will find yourself up close and personal with your local EMT." The mistakes I made along the way resulted in some interesting scars and a few now-funny stories. Recently, though, I saw a young woman make a mistake that will leave no physical mark but will hurt her a lot more in the end.

"Betty" was involved in an accident while a minor, but she recently turned eighteen years of age. Working with her parents, we designed a nice settlement plan designed to allow her to maximize her eligibility for educational financial aid while enjoying the tax-free benefits of a structured settlement.

We reason we could deliver this is that, under structured settlement tax rules, the settling claimant does not own or have any direct rights to the assets backing the plan. Until the check arrives at her door (or the Electronic Funds Transfer shows up in her bank account), she owns *nothing*. Combined with good design work, this construct can result in a person having substantial assets established for their benefit but still taking advantage of any financial aid they might otherwise qualify for. Eligibility for several forms of college aid depends on the level of assets held by the student and/or their family; if you have too much money, you do not qualify. We had explained this to Betty's family and offered the following plan.

> ***Monthly stipend while attending college***: $ 300 per month for four years certain beginning on her 18th birthday.
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> ***Lump Sum to help pay off student loans:*** $ 80,000 paid after five years.

This plan provided Betty with a monthly income to offset expenses while attending college but was not so large that it would accumulate and potentially disqualify her from financial aid. When declaration forms need completing, she would honestly have little in the way of assets to declare. The whole basis for the monthly stipend is to relieve Betty of having to work and thereby enable her to apply more of her time toward her studies. The $80,000 lump sum payment was designed to pay off any student loans she may have taken out and to help her get started with her postgraduate life. The plan guarantees Betty will receive $94,400 in tax free benefits at a cost of only $71,920.

Betty's parents saw the merit in our plan. They understood that by taking the settlement in cash and putting it in the bank they would eliminate Betty's eligibility for financial aid as they would have to declare the asset of $72,000 on her financial aid form. Everyone being satisfied that this plan was in Betty's best interest, we funded the plan and began preparing closing documents. Unfortunately, …Betty turned eighteen before the paperwork was complete.

Now an emancipated adult and legally out from under her parents' thumbs, Betty had other ideas of what to do with her newfound "fortune." With her 18 years of experience, she rejected the structure and insisted on receiving a lump sum of cash. Everyone - her mother, her attorney, even the claim representative - tried to get Betty to change her mind. No way. The plan was scrapped.

Does anyone care to guess how long that money will last? I suppose Betty was simply doing her part to stimulate the economy and that salespeople at the local malls and car dealerships will be thankful.

It is a well-documented fact that one of the least likely age groups to accept structured settlements are people ages 18-30. It's not impossible to show them the benefits, but you must listen carefully with this group. They have as yet shouldered few economic burdens but can't help being affected by an astounding barrage of multi-media consumerism.

It is not hopeless, however, but to have any chance of success with this group you must generally get the new car out of the way with an immediate cash payment. After that, they will often respond favorably to lump sums for down payment on a house and setting some amount aside for retirement (but not too much) in the distant, distant future. Most will never have heard of "tax-free" or understand its impact until you explain it to them. The quicker ones will enjoy feeling smart versus their unsophisticated (and ignorant) friends.

It's not easy with this group, but it can be done. Unfortunately for Betty, she reached the magical age of 18 right on top of one of the biggest financial decisions she will ever have to make. At that age it's easy to get it wrong - and she did. Hard to recover from that mistake.

Do you have a case where the claimant would be better off by not having to declare a large sum of cash? Do college expenses loom in the near future? We have strategies worth discussing. Contact Frank C. Kilcoyne, CSSC at frank.kilcoyne@jmwsettlements.com or call 800-544-5533. I am here to help.