

## Structured Settlements for Employment Disputes

**Claim Profile:** Sarah, a 40-year-old executive assistant, was unexpectedly laid off by her employer. Her 15-year career ended with the final salary of \$45,000. Sarah was the oldest executive assistant at the firm and believes she was let go due to her age. She filed a lawsuit alleging age discrimination and wrongful termination. Sarah and her former employer agreed to a total settlement of just over \$2 million.

**Sarah's Needs:** Sarah would like to stay in her current home, as she is very involved in her community. Since she has not been able to find another job, Sarah has incurred a large amount of credit card debt that she wants to pay off as soon as possible.

### Settlement Allocation

Total settlement:	\$2,285,995
Attorneys' fees:	(\$748,665)
Upfront cash:	(\$40,000)
<b>Net settlement proceeds:</b>	<b>\$1,497,330</b>

Sarah's Needs



Guaranteed monthly payments



An income stream to pay her mortgage and monthly expenses



Upfront cash to pay off the credit card debt she incurred while out of work



Savings for future unknown expenses

### Comparison of Settlement Options & Monthly Income Strategies

#### Lump-Sum Invested Post-Settlement

- > Taxes on the net settlement proceeds of \$1,497,330 reach the highest tax bracket (39.6%, for a total of \$540,798) in the first year.
- > Net amount available for investment: \$956,532
- > Interest earned by the amount invested is taxed each year, reaching the 15% tax bracket.

Assuming an investment interest rate of 3%, Sarah's cumulative after-tax income: **\$1,408,179**

Funds are exhausted after **27 years, 2 months**, based on Sarah's receiving \$3,750 pre-tax per month, increasing by 2% annually, an amount necessary to compensate for her prior salary.

#### Periodic Payments

- > The net settlement proceeds are used to purchase an annuity that provides monthly payments throughout Sarah's life, with 27 years, 2 months guaranteed.
- > Monthly payments are taxed each year, reaching the 25% tax bracket.
- > Sarah's after-tax guaranteed lifetime monthly income: \$3,750 increasing by 2% pre-tax annually

Sarah's cumulative after-tax income if she lives to her life expectancy: **\$2,956,755**

Sarah will receive guaranteed monthly payments for 27 years, 2 months or **for her lifetime**, whichever is longer.

#### Solution

In situations such as Sarah's, a structured settlement can provide just the right combination of upfront cash and guaranteed monthly payments.

By choosing a structured settlement with a lifetime annuity rather than a single, lump-sum cash settlement, Sarah will receive **\$1,548,576 more after-tax income** if she lives to her life expectancy of age 87. In addition, if Sarah outlives her life expectancy, she will continue to receive guaranteed monthly payments.



Total Amount That Would Be Received

\$1,408,179

\$2,956,755



How Much Longer the Duration Will Last

27y + 2m

47y\*

□ Lump-Sum Invested Post Settlement | □ Periodic Payments

Liberty Life Assurance Company of Boston is a Liberty Mutual company.



\*Figures used in this example are based on 2016 tax law and are subject to change. Life expectancy of 87 years is based on LMI Underwriting. Calculations as of June 2016 using 2000A table.

## Results

By electing to receive periodic payments instead of a single, lump-sum cash settlement, Sarah will receive much more after-tax income if she lives to her life expectancy of age 87. These are just a few of the tax and income advantages Sarah gains by electing a structured settlement:

- > She pays a lower effective tax rate.
- > She'll receive **\$1,548,576** more income if she lives to her life expectancy.
- > She'll receive guaranteed monthly payments throughout her entire life.
- > The periodic payments will allow her to avoid the risk of the investment markets. She would need a taxable equivalent yield of **6.3%** to earn the same return as the structured settlement over her life expectancy.

### Sarah's Structured Settlement Benefits



Increased tax efficiencies



Guaranteed payments for life



More after-tax income



Low investment risk

Sarah will gain other advantages as well, including peace of mind:

- > Since the structured settlement's guaranteed monthly payments will let her keep up with her mortgage payments, she won't have to worry about being forced to move.
- > Sarah can count on receiving regular payments each month, which can help her budget her expenses.
- > She can use her steady income stream to help avoid credit card debt and create funds for any financial emergencies.

### Sarah's employment dispute structured settlement utilized a non-qualified assignment.

A non-qualified assignment involves the transfer of a future periodic payment obligation from the defendant or its carrier(s) to a third-party non-qualified assignee. This type of assignment is particularly beneficial for settlements that do not qualify for an IRC Section 130 assignment. For more information about Liberty Life's non-qualified assignment program contact us at [Liberty.Structured@LibertyMutual.com](mailto:Liberty.Structured@LibertyMutual.com).

Learn more about non-qualified settlements by contacting Finn Financial Group today.



**Dan Finn, CPCU, MSSC™, RICP®**  
Finn Financial Group, LLC  
949-999-3322  
[Dan@FinnFinancialGroup.com](mailto:Dan@FinnFinancialGroup.com)

CA Insurance License: 0A96173



Structured settlement annuities are issued by Liberty Life Assurance Company of Boston ("Liberty Life"), a Liberty Mutual company.

Liberty Life Assurance Company of Boston's financial strength backs all of its obligations to pay claims under the policies it issues. In addition, Liberty Life Assurance Company of Boston's ability to pay those claims is backed by a written guarantee from Liberty Mutual Insurance Company.

Home office: Boston, Mass. Service center: Dover, N.H.  
© 2016 Liberty Mutual Insurance  
SS 2016024 9/16