Introduction

- The Stock Market is inherently risky
- CDs are paying low interest rates
- Money Market Accounts aren't much better
- Government Bonds also have low returns

In today's uncertain environment, what can one do? A new approach has emerged as a high yield, low risk alternative:

Structured Settlements

Definitions

- Settlement
  - The resolution of a dispute (Lawsuit) brought by one party (Claimant) against another (Defendant), either as mutually agreed upon by the parties involved, or as ordered by a court.
  - For our purposes, we are discussing Cash Settlements, the awarding of a sum of money to the Claimant.

Definitions

- Lump Sum Settlement
  - The Claimant agrees to accept a single cash payment to satisfy the terms of a settlement.
- Structured Settlement (SS)
  - The Claimant agrees to take periodic payments over a specified period of time to satisfy the terms of a settlement, usually in the form of an annuity.

Definitions

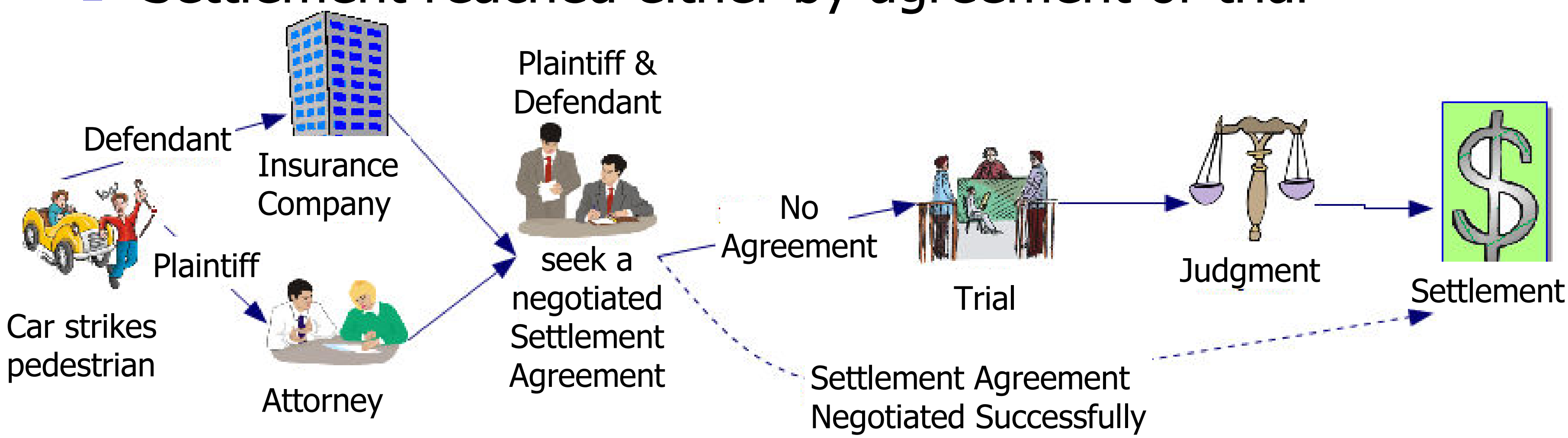
- SS Payment Rights
  - Practically speaking, the future payments that make up a SS.
- SS Factoring Transaction
  - A transaction wherein future payments to a Claimant with a Structured Settlement are transferred to another entity. The Claimant typically receives a Lump Sum Payment and a revised Structured Settlement.

Definitions

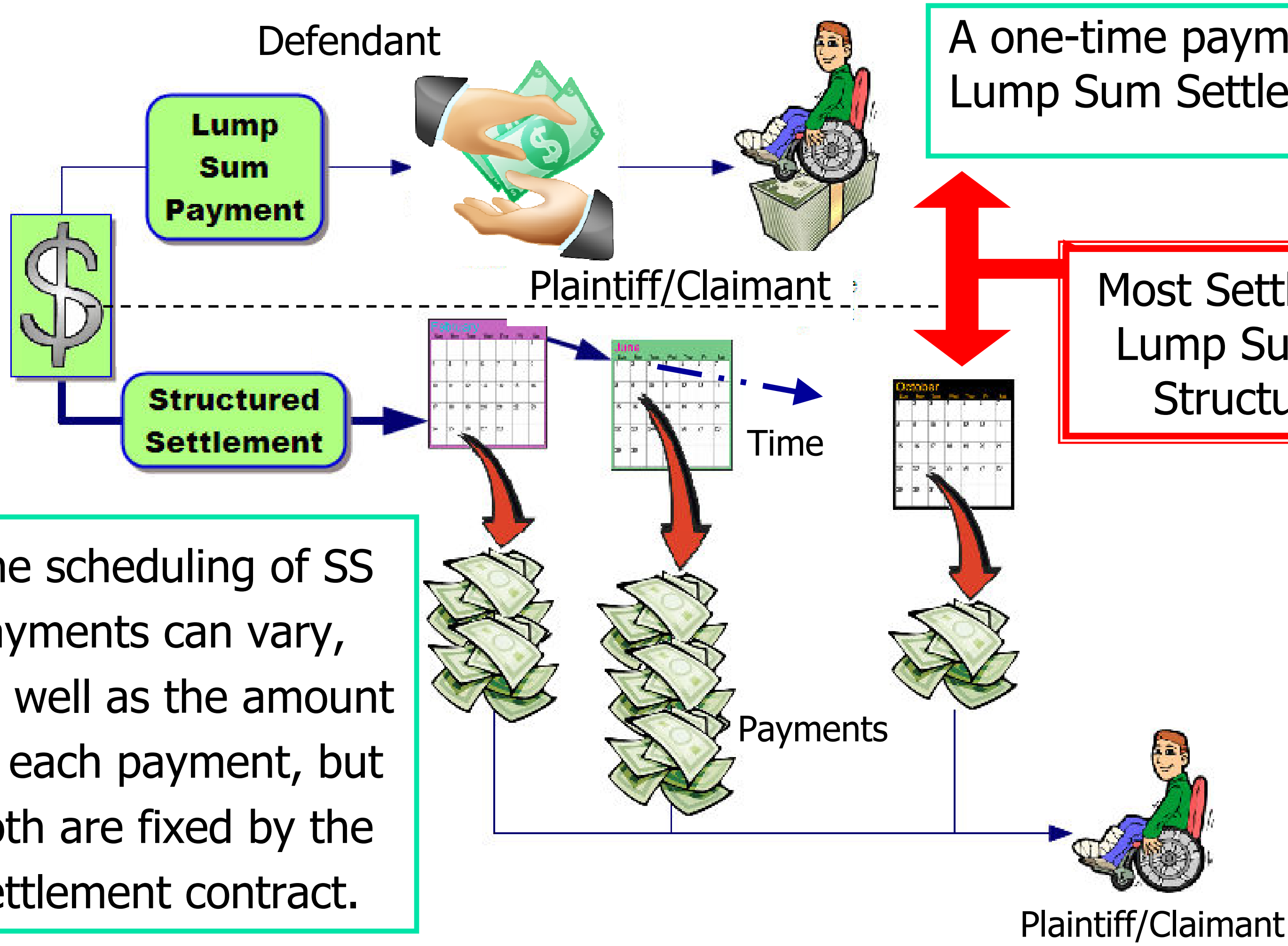
- Factoring Company (FC)
  - An entity that purchases Structured Settlement Payment Rights from claimants in exchange for cash and new, altered Structured Settlements.

Lawsuit Example: Incident to Settlement

- Car strikes pedestrian (Plaintiff/Claimant)
- Driver (Defendant) makes insurance claim
- Injured pedestrian (Claimant) seeks legal counsel
- Suit filed in Court (not shown)
- Parties negotiate
- Settlement reached either by agreement or trial



Two Types of Settlements



A one-time payment. Once paid, a Lump Sum Settlement is complete.

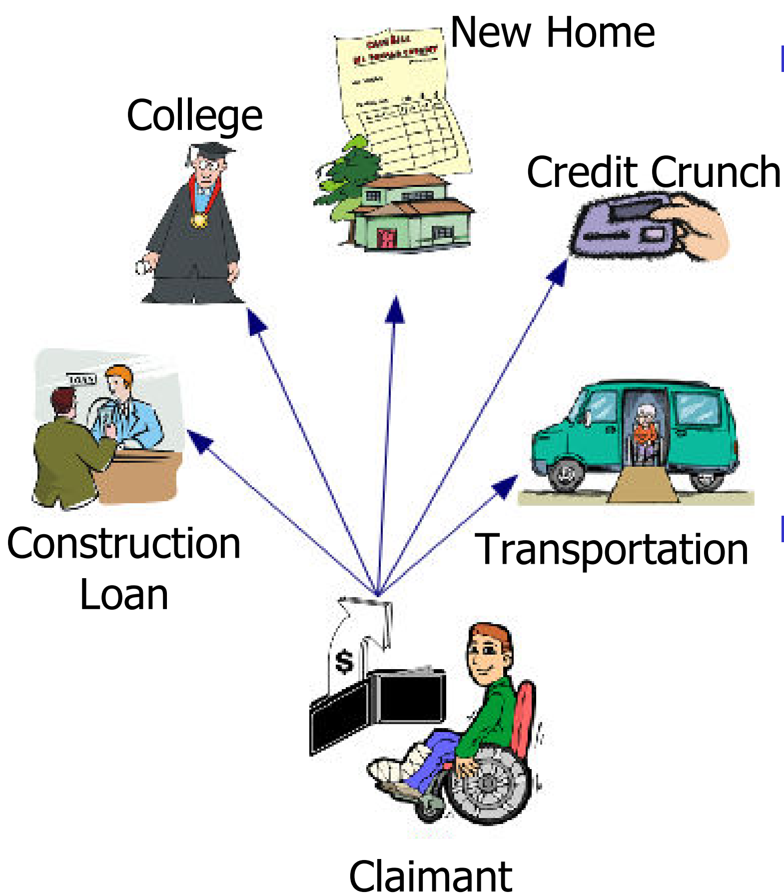
Most Settlements combine a Lump Sum Payment and a Structured Settlement.

The scheduling of SS payments can vary, as well as the amount of each payment, but both are fixed by the Settlement contract.

Pros & Cons of Structured Settlements

- For the Claimant
  - ☑ Steady, guaranteed cash flow
  - ☑ Helps planning for future expenses
  - ☑ Payments not taxable as income
  - ☒ Payment amounts cannot be changed
  - ☒ Term of the agreement cannot be changed
  - ☒ Future payments are not easily made liquid to provide current cash flow
  - ☒ Most banks will not accept such income streams as collateral for loans

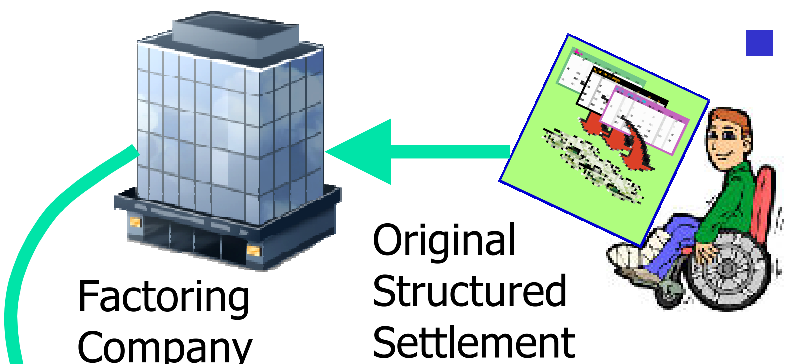
What If?

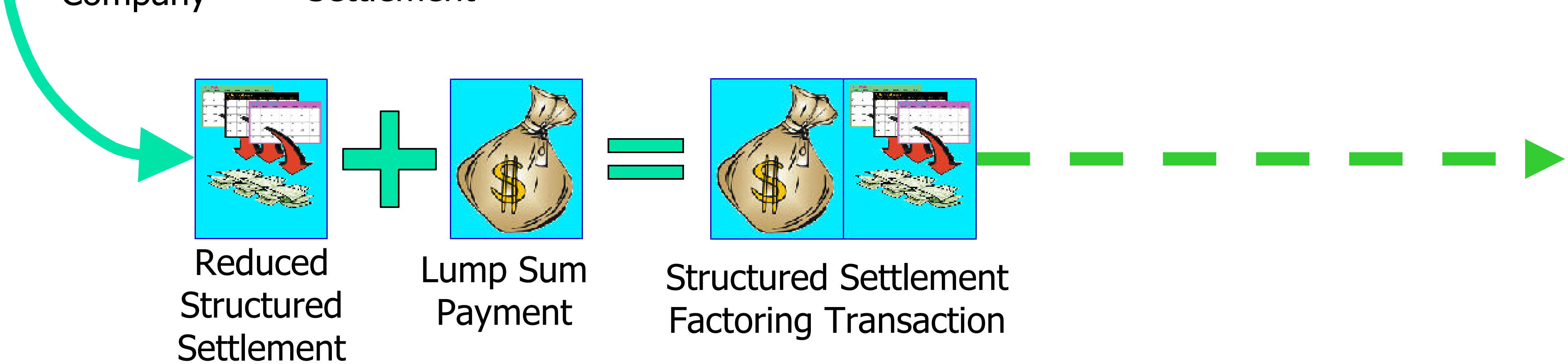


- Claimant's circumstances change, requiring fast cash
  - Job loss
  - Income not sufficient to meet current cash flow needs
- Claimant needs cash quickly
  - Illness or disability of a family member
  - Vehicle purchase
  - Purchase of a new home

Obtaining Additional Cash From a Structured Settlement

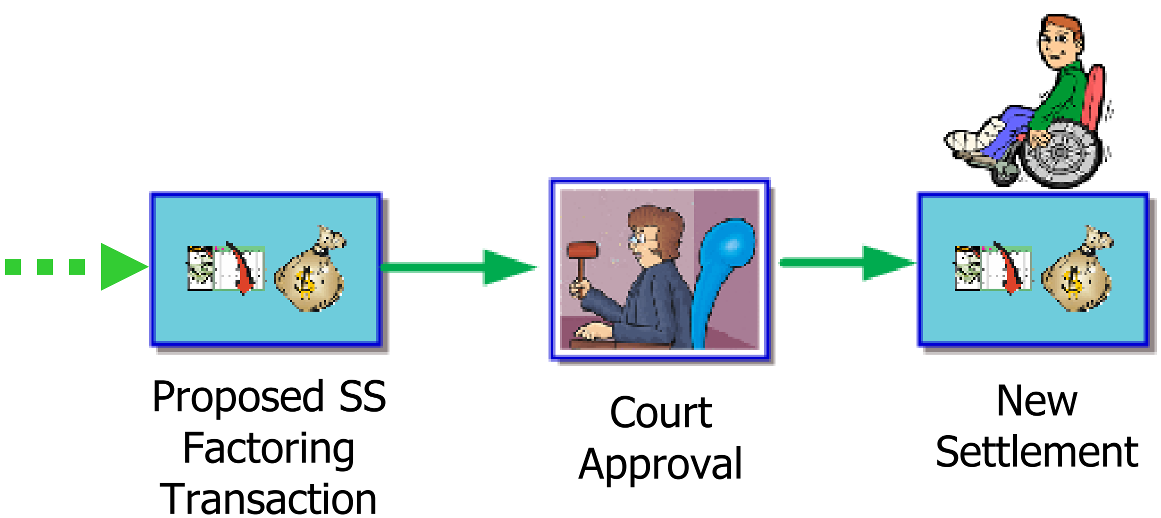
- Claimant brings existing Structured Settlement to a Factoring Company to explore options
  - Factoring Company proposes a cash payment and a <u>reduced</u> Structured Settlement
    (A Factoring Transaction)





“Restructuring” a Structured Settlement

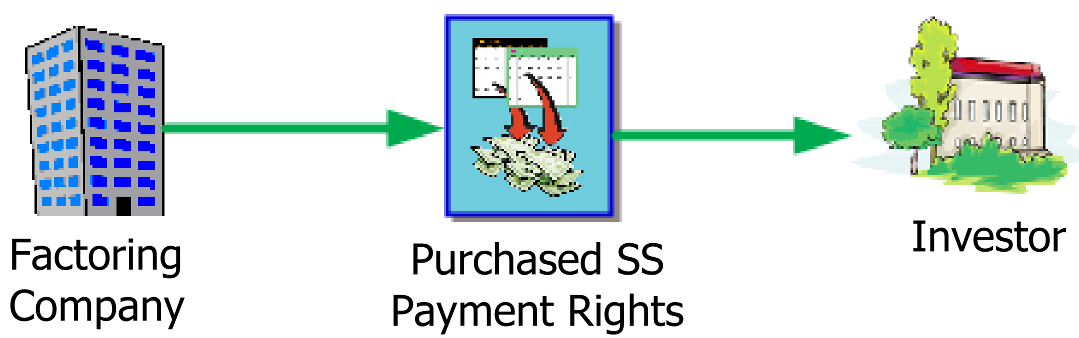
- To protect the Claimant, a court must approve the SS Factoring Transaction (Lump Sum Payment plus NEW SS) as being in the legal “Best Interest” of the Claimant*
- Lump Sum is paid to the Claimant



* Most states have enacted Structured Settlement Protection Acts (SSPA’s) to protect claimants against unscrupulous FC’s. A typical SSPA requires specific disclosures by the FC to the Claimant, as well as court approval of the transaction.

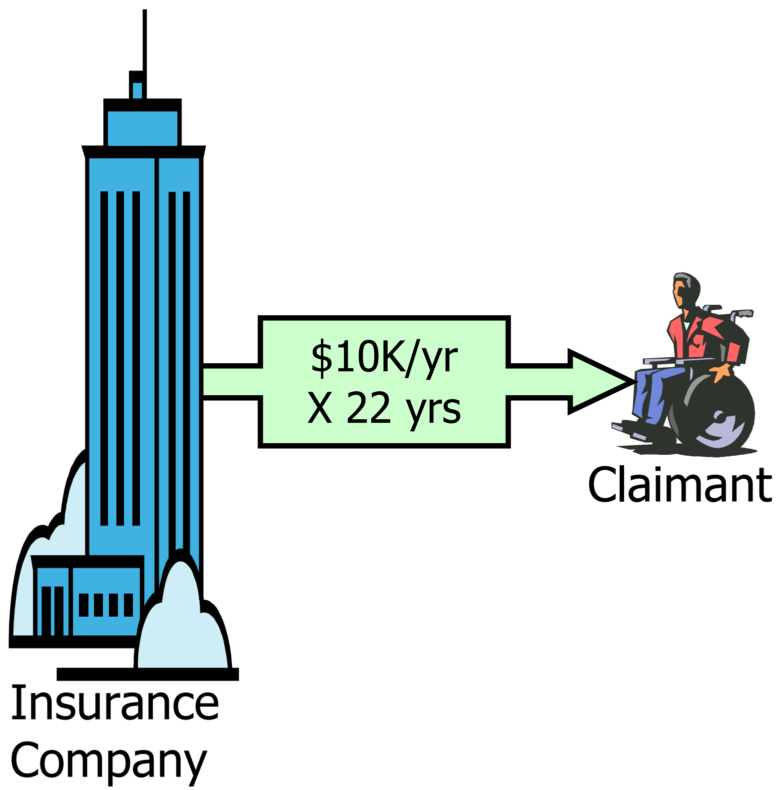
What Happens to the Original Structured Settlement?

- The Structured Settlement Payment Rights purchased by the Factoring Company can be sold to investors such as:
  - Hedge Funds
  - Pension Funds
  - Individuals

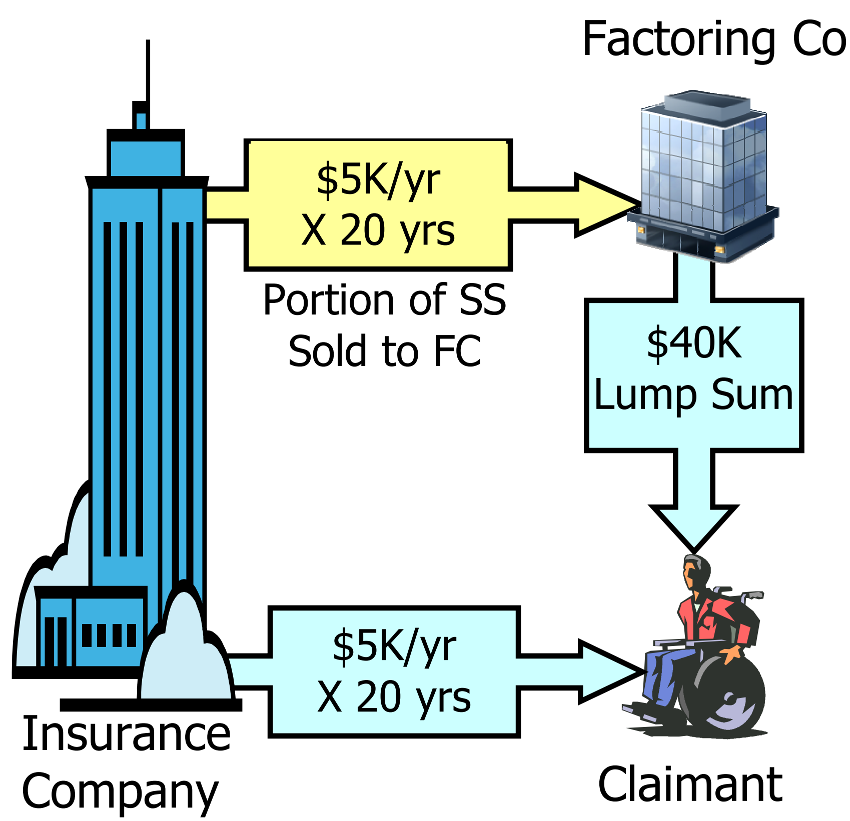


Example: Original and “Restructured” Settlement

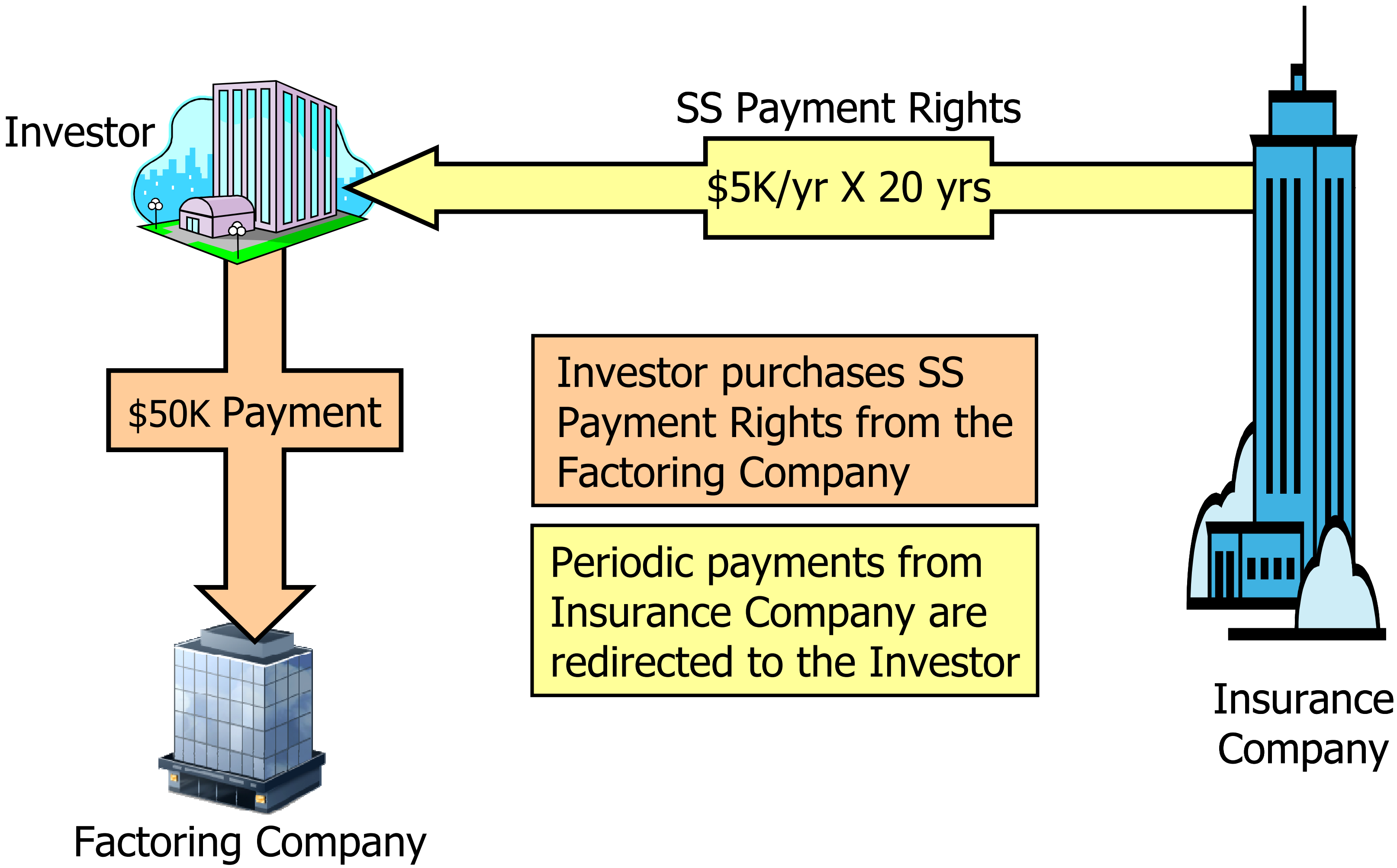
Original Structured Settlement



“Restructured” After 2 Years



Investor Buys SS Payment Rights



How Factoring Companies Make Money

- Value Structured Settlement Payment Rights to establish a purchase price
- Purchase SS Payment Rights from claimants at a discount
- Resell these Payment Rights to investors at a profit

Win-Win-Win

- Claimants obtain the immediate liquidity they are seeking, and can still benefit from a Structured Settlement
- Factoring companies realize a profit by selling the purchased Payment Rights
- Investors are guaranteed a high rate of return with very minimal risk

About the Market

- $6 Billion in Structured Settlements are purchased annually
- The present market value of all Structured Settlements is approximately $100 Billion
- Claimants sell about $2 Billion of these Structured Settlements to investors through Factoring Companies each year

Investment Security

- These purchases carry very little risk because payments originate from highly rated Life Insurance Companies
- Payments from the insurance companies are backstopped by State Guarantee Funds
  - Guarantees are generally limited to $300,000 per case
  - Guarantees vary, based on the venue of the lawsuit
- Depending on state laws, payments are protected from most creditors because they are annuity payments*

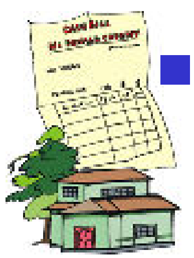
*Exceptions: State and Federal tax authorities, divorcing spouses, and any creditors' claims existing before the contracts are purchased.

Grosnick Financial's Role

- Grosnick Financial brings experience and expertise to bear evaluating these opportunities for investors
- Grosnick Financial acts as an intermediary, assisting investors who wish to participate in this arena
- Grosnick Financial works with investors and their advisors to integrate these transactions into their overall financial plan

Investment Ideas for Structured Settlements

- Implement strategies such as grandparent gifting to allow planning for future college needs



- Create mortgage loans to realize additional cash flow
- Achieve legacy planning by using payments to purchase life insurance

Who Else Can Benefit

- IRAs and Qualified Retirement Plans
  - Obtain safe, low risk investments with a high Internal Rate of Return (IRR)
- Charitable Institutions
  - Receive a guaranteed income for a specific period of time, facilitating planning and reducing fundraising anxiety in slow economic times

What's the Bottom Line?

- Rates of Return on Structured Settlements should be at least DOUBLE those of instruments considered to be the safest investment options:
  - Bank Certificates of Deposit
  - Government Bonds
  - Annuities purchased directly from Life Insurance Companies

What’s the Bottom Line?

- Internal Rates of Return (IRR)
  - 5% to 7% should be expected.
  - Payments include principal and interest*
  - At the end of the payment period, the investor has received back all of his/her investment

*In essence, this is the exact opposite of a mortgage, where a borrower is given a lump sum of money and repays it over a period of time.

Example: Investment=$145,000 IRR=5.5%

Assumptions

- Investment date 1/1/2012
- Interest accrues monthly from 1/1/2012
- Values rounded to nearest dollar

► Consult your Tax Professional about the timing and calculation of taxable income.

Qualified Retirement Plans do not incur current taxable income.

Year	Investment	Periodic Payments	End of Year Balance	► Taxable Interest Calculated As	
				A Debt Instrument	A Period Certain Annuity
1	$145,000	$14,031	$137,913	$6,944	$4,364
2		14,031	131,116	7,235	4,364
3		14,031	123,946	6,861	4,364
4		14,031	116,382	6,467	4,364
5		14,031	108,402	6,051	4,364
6		14,031	99,982	5,612	4,364
7		14,031	91,100	5,149	4,364
8		14,031	81,729	4,660	4,364
9		14,031	71,843	4,145	4,364
10		14,031	61,413	3,601	4,364
11		14,031	50,409	3,027	4,364
12		14,031	38,800	2,422	4,364
13		14,031	26,553	1,784	4,364
14		14,031	13,632	1,110	4,364
15		14,031	0	399	4,364
Totals	$145,000	$210,467		$65,467	$65,467