



MONITOR

We'd be nuts if we said we could **guarantee** your client an 8% return before tax, right? **Wrong...**

Dispelling the Myth of Low Interest Rates

Lately, many people have observed "It's too bad rates are so low right now. Structured settlements are not attractive". We would ask, "What is wrong with 8%, guaranteed?"

Structures are currently producing annual returns of about 4.5% to 5%, compounded – similar to Government of Canada 30-year bonds. Yet many people forget the implications of income tax. Depending on a person's marginal tax rate, a tax-free structured settlement at 5% is really the equivalent of a guaranteed rate of 8% or 9% from a taxable investment. **Where else is this guaranteed return achievable?**

Some would say "In mutual funds or equities". Perhaps anyone not seriously injured can afford the risk associated with potentially higher returns, but the past five years has demonstrated how quickly the risk can become reality, with even "blue chip" investments producing consistently negative returns.

In the world of personal injury, however, we see people every day whose ability to earn income is diminished, or lost completely. A person who has not been injured might be able to accept some risk in exchange for the possibility of higher returns, since he can pick himself up,

continue to work and earn back the money he lost on the "sure winners". Certainly, he would never take his whole paycheque and invest it all in a recommended fund, or a "great stock tip". First, he must pay for food, clothing, shelter, utilities, car, insurance, children's tuition; then perhaps he can build up a small savings account for emergencies – his rainy day fund. Next, he must provide for his retirement income.

Presumably, an injured person would want to do the same.

Often, the net settlement amount is all there is to meet an injured person's needs for the rest of his life. In addition to the everyday expenses that we all incur, this fund must also provide for ongoing medical, rehabilitation, and care requirements. If his investments do not produce the anticipated return, how then can he meet those needs? The answer is, "He can't".

If you received your career's worth of income in a single cheque, and had to decide today where to invest it – how much risk would you be willing to accept?

Current projections from financial advisors show estimated returns of 8% to 10% - not guaranteed and certainly not tax-free. Compared to a 5% structured settlement, these



continued from page one

projections can look far more attractive – however, the degree of risk and the tax implications are not comparable. When tax is considered the return is roughly the same – **but only the structure is guaranteed, and without any annual management expense fees.**

In a nutshell, whatever the current interest rate climate, structured settlements still provide **the highest guaranteed yield available** – we guarantee it.

With Structured Settlements, Less Means More

In the long run, whatever the prevailing interest rates, a tax-free structured settlement means more money and more security than a conventional cash award.

Take the cases of Paul Smith and Sally Jones, both plaintiffs in the same action.

Paul Smith settles his claim for \$500,000 in cash; Sally Jones accepts a \$450,000 tax-free structure. The differences in what these financial decisions mean may be striking.

Mr. Smith invests in low-risk long-term government bonds currently paying 4.6% annually. This pays \$23,000 per year, taxable. After allowing for taxes – perhaps one-third of his annual investment income – Mr. Smith receives \$1,284.17 per month. In 20 years, therefore, Paul Smith will have earned \$308,200.00 from his settlement, without using any of the original \$500,000.

Sally Jones, on the other hand, has her \$450,000 structured to pay a tax-free \$1,574.27 each month, guaranteed, for 20 years. In addition, the structure is designed to pay a one-time guaranteed cash payment of \$500,000 in 20 years.

At the end of 20 years, Sally Jones will have received \$377,824.80 in structure payments and \$500,000 in additional money. If Paul and Sally were to compare their awards 20 years after their original settlements, they might be surprised.

Ms. Jones' \$450,000 structure has netted her \$877,824.80 in tax-free money. Mr. Smith's higher cash award has produced a 20 year after-tax total of \$808,200.00, or \$69,624.80 less than Ms. Jones' structure.

Paul Smith may well wish he had settled for a \$450,000 structure rather than \$500,000 in cash.



PAUL OR SALLY; WHO WILL END UP WITH MORE?	
A	B
PAUL SMITH'S \$500,000 CASH SETTLEMENT	SALLY JONES' \$450,000 STRUCTURED SETTLEMENT
\$1,916.67/MO. INTEREST INCOME	
\$632.50/MO. TAXED AWAY	
\$1,284.17/MO. SPENDABLE	\$1,574.27/MO. SPENDABLE
20 YRS.	20 YRS.
TOTAL \$308,200.00 PLUS \$500,000 TO RE-INVEST	TOTAL \$377,824.80 PLUS \$500,000 TO RE-INVEST

The McKellar Structured Settlement™ Process

1a.	McKellar Specialists	PERSONAL CONSULTATION, MEDIATIONS, SETTLEMENT MEETINGS
		We are available at any time, in at least ten different places at once, to provide accurate, comprehensive structure advice—for free.
1b.	Accident Benefit Analysts	VALUATIONS AND ILLUSTRATIONS
		We prepare fast, accurate valuations of even the most complicated future care cost report, based on the applicable accident benefits legislation.
2.	Centralized Brokerage Department	BEST RATES GUARANTEED
		We deliver the highest income or the lowest cost, from qualified life insurers. Our staff prepares periodic activity reports and annual year-end OSFI valuations for casualty insurers, when requested.
3.	Centralized Quality Assurance	FINAL PRINTOUT IS VERIFIED 3 TIMES
		We provide centralized quality assurance by dedicated specialists for every aspect of a file, from the initial illustrations to the final structure contract.
4.	Legal Department	THE BEST PROTECTION
		As the only structure firm with a full-time legal department, we ensure all necessary documentation complies with Canada Revenue Agency (CRA) requirements. Our lawyers protect you and your settlement by reviewing or drafting settlement documentation.
5.	Post-Funding Department	APPLICATIONS, ASSIGNMENT DOCUMENTS, CONTRACTS
		We prepare all the necessary structure documents, check them for accuracy, and have dedicated post-funding staff to ensure hassle-free delivery of the structure contract.
6.	The McKellar Guarantee	OUR PROMISE TO YOU
		The McKellar Guarantee, issued with every structured settlement contract, is our promise to you that your structured settlement is protected, tax free and prepared in compliance with CRA requirements.
7.	Client Services Department	LIFETIME SERVICE COMMITMENT AT 1.800.265.8381
		We handle the lifetime service requirements of every client. Our staff handles reversions for casualty insurers, estate administration for clients' structures, and maintains an archive of all structured files – now, and years from now.



The McKellar Structured Settlement™
As sure as the sun will rise.

The only structure company with a legal department that reviews every settlement for tax compliance; with offices coast to coast and the ability to be at ten different mediations at once. *Now You're Sure.*



Please give us your comments on The McKellar Structure Monitor. Please write, e-mail, phone or fax: John Rousseau, Editor, The McKellar Structure Monitor, 649 Scottsdale Drive, Suite 100, Guelph, Ontario, Canada N1G 4T7 Phone 1-800-265-8381 Fax 519-836-7631

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