

THE ROLE OF STRUCTURED SETTLEMENTS IN SABS CLAIMS

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1. Introduction

Annuity purchases are appropriate in claims situations where there is recognition and agreement that accident benefits will be owed well into the future.

Simply put, the prime objective of the structure broker at a mediation is to help the parties achieve a settlement. How this objective is reached is more complicated - particularly in SABS cases. These cases present unique negotiating challenges with respect to finding agreement on the method of valuation, securing or giving up appropriate discounts, and retaining or relinquishing reversionary interest.

Clearly, the broker has a vested interest in a settled case. Without at least a partial settlement there can be no structure. If there is no structure, the broker receives no compensation for his/her time and effort (since brokers are remunerated strictly on a contingent basis). A commission is received only if and when a structure is actually placed. As a result, it behooves the broker to develop creative ways to bridge gaps that exist among the positions of the various involved parties.

Essentially, there are two phases to the broker's involvement in the settlement process. The first is to develop present or market value figures for the SABS benefits under consideration. This is primarily a mathematical exercise. The second phase involves the broker working with the parties, particularly the plaintiff, to create the most appropriate form of structure, having regard for maintaining the value of any reversionary interest to the defence (see Appendix "A").

There are both tangible and intangible savings created for the defence by the use of structures. As well, it is well-recognized that structures offer a benefit to plaintiffs¹.

All negotiations must be conducted in utmost good faith as that is the duty owed by both first party insureds and insurers to each other.

¹ In this paper the terms 'plaintiff', 'claimant', and 'insured' are deemed synonymous.

To understand how structures apply in a SABS context requires a careful look at the settlement process, including the approach taken when assessing the value of a claim, as well as various aspects of the negotiation process.

All of the following issues bear on the results to be achieved:

- Actuarial Present Value (APV) versus structure annuity costs
- Mortality
- Reversionary interest
- Settlement discounts
- Estate protection for the claimant
- Taxation
- Administrative expenses
- Reserving
- Reinsurance
- Elimination of risk
- Negotiations

I will attempt to give you the “executive summary” of each issue.

2. APV versus Structure Cost

There are two basic methods of valuing Accident Benefit claims. One is an actuarial calculation to estimate the present value (APV) of future SABS obligations under the auto policy. The other is to use structure costs to value future SABS obligations.

Actuaries charge fees for their reports – generally, a few thousand dollars. There is no cost to the structure valuation. Brokers operate strictly on a contingent basis, never charging a fee for service, and only receive compensation from the issuing life insurer if and when a structure is actually purchased.

More importantly, a structure cost approach to determining the present or market value of Accident Benefits entitlements generally results in a lower figure than an APV. The reasons for this are as follows:

- (a) Annuity costs reflect real market rates as opposed to assumed discount rates used by actuaries. The difference can be quite significant, depending on such factors as the rate of indexation of the future periodic payments and the duration of these payments. Most actuaries have been using the discount rate drawn from Rule 53.09 of the Ontario Rules of Civil Procedure to value CPI (Consumer Price Index) linked payments. The blended rate for 2006 is 1% for the first 15 years and 2.5% thereafter. These rates are called real rates (i.e. difference between the nominal or market rate and the inflation rate).

The problem is that this statutory rate is often inconsistent with the real rate of return in the market place. For example, current real market rates are approximately 1.5%. Thus, use of the actual real rate would result in a lower present value than if the statutory rate were used. Because annuity rates are tied to actual or market rates, their use may result in a lower present value.

- (b) Both annuity costs and APVs take into account reduced life expectancy, however, annuity costs are typically based upon more aggressive mortality assumptions. In their present value calculations, actuaries use the life expectancy assessments of the treating physicians. Annuity costs are based upon “impairment ratings” (which reflect diminished life expectancy) received from life insurers. Impairment ratings are invariably more aggressive than the reduced life expectancy assessments of treating physicians. This, of course, results in annuity costs to provide ongoing future benefits which are lower than APVs. Such financial leverage is not available in any other financial instrument.
- (c) Actuaries make assumptions with respect to future inflation rates. Thus, the results of their calculations are uncertain. An annuity cost represents an actual product which, if purchased, guarantees to provide the payments outlined. If payments are indexed (such

as under Bill 164, where they are linked to the CPI), or if they are level (such as under Bill 59), the annuity can respond in identical fashion.

The following analysis of an actual case illustrates the savings inherent in the use of structure costs versus APVs.

The case involves a female, born December 20, 1974, who was injured in a motor vehicle accident on August 17, 1995, in which she suffered a brain injury. Her claim, therefore, falls under Bill 164.

The insurer provided medical information which allowed us to obtain impairment ratings of +9, +23 and +25 years from the life insurers. This means that the life companies will treat the claimant as being that many years older than her chronological age, for the purpose of costing a life annuity. These ratings have been incorporated into the annuity valuations outlined below.

Benefit	<i>Amount</i>	<i>APV at 2.5%¹</i>	<i>Annuity Cost</i>
L.E.C.	\$1,178.45/month for life, indexed to CPI, reducing to 70% at age 65.	\$354,122.65	\$ 310,819.52
Attendant Care	\$10,000/month for life, indexed to CPI.	3,046,692.00	2,652,884.77
Med/Rehab	\$4,119.79/month, indexed at 2% per annum ² , payable for 13 years. This will exhaust the \$725,756.76 remaining in the original \$1,002,000.00 limit.	549,176.25	529,367.97
Total		\$3,949,990.90	\$3,493,072.26

¹ Discount rate at time of settlement (Rule 53.09). APV based on reduced life expectancy of 40 years.

² A 2% assumed escalation rate was used in order to estimate a fixed point at which the residual limit will exhaust. Because future CPI increases cannot be predicted in advance, they must be estimated when a fixed cumulative payout limit exists. At the time of preparation a 2% assumption is consistent with economists estimates of long-term inflation.

The use of annuities which respond identically to the future obligations makes the negotiation process simpler and more advantageous to the insurer. The annuity cost is, arguably, an unassailable figure, since the product can actually be purchased in the marketplace. In hundreds of settlement meetings, the parties have always accepted the validity of using annuities as a valuation vehicle.

3. Mortality

As outlined in Point 2(b), life expectancy reductions (impairment ratings) obtained from life insurers are invariably more aggressive than mortality assumptions used in actuarial calculations. In fact, many actuarial calculations assume normal life expectancy, notwithstanding that brokers are able to obtain annuity impairment ratings from the life companies.

Pooled mortality (i.e. the underwriting of multiple impaired lives as a class) allows life insurers to be more aggressive in their assessments. The mortality risk (the risk of the claimant living longer than expected) is completely borne by the life insurer. The claimant bears no adverse consequence. The casualty company, however, pays less for a substandard mortality annuity than for an annuity based on normal life expectancy.

The mortality assumption is an important factor in settlement negotiations. An actuarial calculation which assumes mortality to a future age will, by virtue of the calculation, result in a present value amount which, if invested and paid out at the predetermined rate, will be exhausted at the anticipated date of death. Should a claimant live beyond that date, there would be no funds available.

On the other hand, an annuity which provides for lifetime payments will guarantee an injured party that funds are available for so long as he or she is alive, regardless of how long that may be. This makes structuring particularly attractive to a claimant and gives an insurer leverage in its negotiations.

Impairment ratings obtained from the life industry can vary substantially. This benefits the casualty insurer, since it can use the highest impairment rating available to secure the lowest structure cost possible (Please note that the highest impairment rating does not always result in the lowest annuity cost, however, that is generally the case.). Once again, it should be stressed that this does not place the insured at risk, since the annuity will provide the stated payments for his or her lifetime, regardless of the cost to the insurer.

To illustrate the variation in impairment ratings and their impact on structure costs, I have set out in the table below figures from an actual case involving a severely brain injured three-year-old female (cost at normal life expectancy has been shown for comparison only).

BILL 164 ATTENDANT CARE CLAIM

<i>Cost to provide \$5,000 per month, for life, CPI-linked</i>	
<i>Impairment Rating</i>	<i>Annuity Cost</i>
None (normal life expectancy)	\$2,019,985.81
+45 years (from Life Insurer A)	\$1,444,457.46
+53 years (from Life Insurer B)	\$1,246,833.05
+70 years (from Life Insurer C)	\$ 728,924.03

In this claim, while there was no actuarial report prepared, the medical reports of the treating physicians suggested a reduced life expectancy of about 50 years. This would result in an actuarial present value (APV) of approximately \$1,721,148.00 based on the application of the statutory discount rate (at the time, 2.5%) in accordance with Rule 53.09. Clearly, if the casualty insurer can purchase an annuity for \$728,924.03 to provide exactly the payments required to satisfy its policy obligation, it is not going to pay the higher (by \$992,223.97) amount of the APV.

In a Bill 59 claim where the claimant is entitled to the maximum allowance of \$6,000.00 per month and, assuming the full \$1,000,000.00 coverage is still available, the figures would be as follows:

BILL 59 ATTENDANT CARE CLAIM

<i>Cost to provide \$6,000 per month, until \$1,000,000.00 has been paid</i>	
<i>Impairment Rating</i>	<i>Annuity Cost</i>
None (normal life expectancy)	\$769,759.63
+45 years (from Life Insurer A)	\$761,052.65
+53 years (from Life Insurer B)	\$751,548.43
+70 years (from Life Insurer C)	\$677,728.53

4. Reversionary Interest

In some first party settlements, an insurer may retain a “reversionary interest”, or “reversion”. This is only applicable to settlements where a structure is implemented, and must be negotiated. A reversion simply means that the casualty insurer (rather than the insured’s estate, as is typically the case in tort structures) is designated as the beneficiary in the event of the death of the claimant. A reversion allows the casualty insurer to preserve the chance to recover some funds, in the event of the premature death of the insured.

For a first party insurer to give up the reversionary clause there must be some additional discount. In other words, except in this type of negotiated settlement, Accident Benefit payments cease with the death of the insured. No further financial security is provided to the surviving spouse or children. To extend that security to the estate is beyond the insurer’s contractual obligation. It must agree to forgo recovery of any portion of the annuity purchase price that may be available upon the death of the insured. In exchange the insurer is entitled to negotiate a reduction in the settlement amount.

Other than ensuring that the settlement documents and annuity contract designate the casualty insurer as the beneficiary in the event of the claimant’s death, the only other condition required to create a reversion is that the structure must provide for some period of guaranteed payments. Without such a guarantee, the structure payments would merely cease upon the death of the insured.

Prior to January 1993 it was necessary for the insurer to take any reversionary payments monthly (or as otherwise paid), in the same way that the estate of the payee would have done, in the case of death during the guarantee period. As of January 29, 1993, Canada Revenue Agency (‘CRA’) confirmed its advice that where a casualty insurer is a beneficiary, the annuity can be commuted on the death of the payee.

This interpretation has greatly facilitated the handling of reversions. If, for example, a structure is written with lifetime payments guaranteed 30 years (meaning that at least 30 years of payments are guaranteed regardless of the death of the individual on whom the contract is written) and if the payee were to die at year five, the casualty company, if it has a reversion, has the option of taking 25 years of monthly payments or of cashing in the contract. It may cash in the contract at a later date if its investment officers feel interest rates will deteriorate, since annuities trade in the same way as bonds. The lower the prevailing interest rates, the higher the cash value (and vice versa). Commutation, therefore, allows insurers to crystallize their recovery and deal with their reinsurer.

Generally, the casualty insurer will pay for the cost of the guarantee in a SABs settlement which includes a reversion. The following chart illustrates the reasonable cost of appropriate guarantee periods, based on normal life expectancy:

COMPARATIVE COST OF GUARANTEES

John Doe (M) D.O.B. February 1, 1958 (age 48) Cost of \$1,805.06/month, lifetime income, indexed at 2% per annum, compounded	
<i>Guarantee Period</i>	Annuity Cost
No guarantee	\$500,000.00
10 years	\$505,951.31
15 years	\$513,459.24
20 years	\$523,871.08
25 years	\$537,493.53

It is critical for all parties to understand at the time of settlement whether or not there is to be a reversion. If so, it should be determined whether the reversion is complete (i.e. 100%) or partial (say, 50%). A 100% reversion means that all guaranteed payments falling due after the insured's death revert to the casualty insurer. In the case of a 50% reversion, 50% of the guaranteed payments would go to the casualty insurer and 50% to the claimant's estate.

Reversions may also be applied on the basis of time periods. The casualty insurer may take a reversion for, say, the first 15 years after structure payments commence, and the insured might include a 5-year guarantee (from year 15 to year 20) for the benefit of his or her estate. Presumably, the latter segment of guarantee would be paid for by the claimant.

Some stipulations should be made as to the form of structure, so as to avoid "front-end loading". Without the requirement that the casualty insurer approve the final form of structure, a claimant might take payments over a very short period of time, during which there is only a slight probability of death. In that situation, the value of the reversion to the casualty insurer would be greatly diminished. The insurer would prefer to have payments stretched out over a longer period of time so as to enhance its potential for recovery through its reversion. If it is not possible to decide on the exact form of structure at the time of settlement, the parties can merely agree that the form of structure must be mutually acceptable.

It is important to note that if an insurer holds a reversionary interest, it is in the best interests of the payment recipient and the insurer to ensure the maximum income is being received on the structure. If the structure is not brokered properly, it could cost thousands of dollars not only to the injured party but also to the insurer, if the reversion were triggered.

5. Settlement Discounts

If an insurer gives up its reversionary interest, it will typically negotiate a larger discount for settlement purposes. Generally, discounts fall in the 10% - 20% range in Accident Benefit

settlements, but each case needs to be weighed on its own merits. The appropriate discount for any settlement depends upon a number of factors, which include:

- (a) Does the insurer want to retain a full reversion or a partial one (for example, a 50% reversion to the insurer and 50% estate protection for the claimant)?
- (b) Is there a credibility issue in terms of the existence of a real disability, or its extent?
- (c) Is the insured's future care cost report reasonable? Does it include unnecessary items/inflated values?
- (d) How anxious are the company and claimant to settle?
- (e) How much of the settlement is cash?

Discounts can also be justified on the basis that a casualty insurer is prepared to allow the settlement proceeds to be structured, thereby giving the claimant the benefit of continued tax-free payments. A claimant who settles for cash would effectively be turning tax-free income into a taxable investment, since a lump sum settlement, once invested, would generate taxable income.

A further basis for discount is the fact that an insurer is not obliged to settle an Accident Benefits claim. It may continue to make direct payments or may, without the consent of the claimant, purchase an annuity to make the payments that will match its obligation under the auto policy. Thus, a claimant wishing to achieve a final settlement will invariably concede some discount for settlement purposes.

6. Estate Protection for the Claimant

Without a settlement of an Accident Benefits claim, the payment of these benefits would cease upon a claimant's death. There would be no continuing benefit to the claimant's dependants or beneficiaries. This can be distressing to a claimant who has significant dependant obligations.

When an Accident Benefits claim is settled with a structure, if the insurer gives up its reversionary interest for a larger discount, the claimant can include a guarantee in the structure, which will provide ongoing protection for beneficiaries in the event of his or her premature death.

In addition to this estate protection, the claimant would have complete flexibility in choosing the manner in which the structured settlement would pay out. The claimant can arrange for the payments to be made in a “needs-based” format, which may be more appropriate than the payment regime as set out under the Statutory Accident Benefits Schedule.

7. Taxation

Accident Benefit payments received by a claimant are tax free. If a claimant settles an Accident Benefits claim for cash and invests that cash, the income generated by the investment will be taxable. On the other hand, a settlement on the basis of a structure allows for the claimant to continue to receive payments on a tax-exempt basis. This is obviously a distinct advantage to the claimant, and can be useful to an insurer in advocating a settlement discount.

8. Administrative Expenses

There are considerable administrative expenses involved for a casualty insurer in the ongoing handling of Accident Benefit claims. These claims can be particularly labour intensive, continuing for many years, with some coverages providing payments for as long as a claimant is alive.

An insurer must deal not only with general handling and cheque issuance expenses, but also with reserving and reinsurance issues. To my knowledge, there have been no studies on the actual administrative and related costs involved in the handling of Accident Benefit claims. It is obvious though, that such costs are subject to inflationary increases. The costs are not static. As a result, most insurers believe it is more advantageous to settle these claims early, if the cost is reasonable, than to continue to handle them on an ongoing basis.

A full and final settlement crystallizes the insurer's loss and eliminates all of the administrative costs, handling expenses and investment risks associated with an open file.

9. Reserving

Reserving can be problematic for casualty insurers, particularly on claims where the benefits are indexed (e.g. Bill 164 claims). With future rates of inflation unknown, it is difficult setting accurate reserves. The result is possible adverse financial implications from under or over-reserving.

Settling the claim (whether for cash or a structure) crystallizes the casualty insurer's exposure or obligation.

10. Reinsurance

Smaller casualty insurers can experience difficulties with reinsurers if an Accident Benefits claim is not settled. For example, once the primary insurer's retention is exhausted on a claim, the reinsurer will be anxious to have it resolved, to crystallize its loss. If the claim is not settled and the reinsurance commutation clause is triggered, the primary insurer may be responsible for future adverse developments on that claim.

11. Elimination of Risk

One of the most important factors with respect to the settlement of an Accident Benefits claim is the elimination of adverse development on the claim. It is a well known adage that "the best claim is a closed claim". This is particularly true where substantial amounts are being paid for such items as Attendant Care. For example, a claimant's medical situation might deteriorate such, that instead of qualifying for \$6,000.00 per month, he or she might become entitled in the future to \$10,000.00 per month (in the case of a Bill 164 claim).

12. Negotiations

Whether it is worthwhile for a casualty insurer to settle an Accident Benefits claim and how much money the insurer might save should it choose to settle is largely dependent upon the ability to negotiate effectively. In turn, effective negotiation is dependent upon understanding the issues outlined above, and how they can be used to their best advantage during the negotiation process.

The starting point in negotiations is critical. As outlined above, the annuity cost invariably represents the lowest and the most uncontentious present value figure available. It gives the insurer a head start before negotiations even commence.

It is worthwhile to look at an actual case to illustrate how savings have been achieved in settling an Accident Benefits claim. I would refer you to the attached Appendix “B” in this regard.

The numbers in this exhibit speak for themselves, and demonstrate the significant potential savings available. A 21.9% discount combined with a 100% reversion on the structure was a very favourable result in the case outlined. However, every case is different and must be evaluated on its individual merits. For example, a 20% savings on an inflated future care cost report may not be as favourable a result as a 10% savings on a more conservative report.

When an Accident Benefit insurer is paying a fixed, undisputed weekly or monthly benefit sum that will not change in the future, it does not require the insured’s permission to purchase an annuity to fund the future benefit payment. It may, if it wishes, proceed unilaterally and purchase that annuity.

Example 1: Insurer paying maximum \$400 IRB under Bill 59. Insurer recognizes lifetime future entitlement.

Example 2: Insurer paying \$280 IRB for three years post loss. The IRB quantum has never been in dispute. Two year limitation to challenge it has passed. Insurer recognizes lifetime future exposure.

Example 3: Insurer paying maximum Bill 59 Catastrophic attendant care benefit of \$6,000 per month. Insured recognizes future benefit will be incurred until either insured's death or policy limit of \$1,000,000 is incurred.

The disadvantage to the insurer of proceeding unilaterally is there will not be a negotiated discount – that is, the insurer will pay the full annuity purchase price. However, in situations where the insured is not prepared to cash a claim out, or where he is not prepared to negotiate reasonably, proceeding unilaterally allows the insurer to benefit from the advantages annuities afford.

13. Conclusion

There is no substitute for sound judgement. In order to apply that judgement, one needs to have the necessary information available. That means preparation well in advance of the actual negotiations.

A structure broker can assist in that preparation. To be of greatest value, structure brokers need to receive and review available medical information so that impairment ratings can be obtained. Details of payments made to date under the various coverages, payments currently being made, and estimates of future annual requirements (i.e. via expert future care cost reports) are also essential.

Early dialogue with the parties prior to any negotiations is important, in order to explain how the various structure concepts might best be applied during settlement negotiations. In fact, many parties agree that structure brokers are of the most assistance by actually attending negotiations. This way, any questions relating to the structure valuation or structures generally can be immediately answered, and on-site modified costs and illustrations can be provided to the participating parties.

**APPENDIX “A” – BILL 59 CASE STUDY
(STRUCTURE APPROACH TO SABS SETTLEMENTS)**

STEP ONE

**VALUATION: LETTER TO CASUALTY REPRESENTATIVE
(WITH ENCLOSURES)**

FRANK McKELLAR M.A., CSSC
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ESTABLISHED 1979

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February 1, 2006

John A. Smith
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TRANSMITTED BY MCFAX®

TO FAX NO: 416-555-1234
ATTENTION: John A. Smith
NO. OF PAGES:
OPERATOR: Connie Bernard

Dear Mr. Smith:

RE: JANE DOE (F) D.O.B. MAY 15, 1974
DATE OF LOSS: DECEMBER 1, 2000
YOUR CLIENT: XYZ CASUALTY COMPANY

Further to your fax of January 26, 2006, we are pleased to provide you with the Bill 59 annuity valuations you requested for Ms. Doe.

Based on the medical information you provided, we have been able to secure impairment ratings ranging from +6 to +12 years, and I would advise that the lifetime annuity costs outlined below incorporate these substandard mortality figures. This has the effect of reducing the acquisition cost of the annuities outlined.

Income Replacement Benefit

You advised that Ms. Doe's Income Replacement Benefit amounts to \$400.00 per week. We have therefore obtained an annuity cost to provide Ms. Doe with Income Replacement Benefit in the amount of \$1,739.29 per month¹ (\$400.00 per week), commencing April 1, 2006, payable on a level basis to age 65. After age 65, payments reduce to 70% of their previous value, in accordance with the following formula:

of years qualified for benefits (to a maximum of 35) x 2%

¹ This calculation is based on an average of 365.25 days per year in keeping with current generally accepted practices.

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In Ms. Doe's case, she will have been entitled to 38.4511 years of benefits from the date of loss to age 65, and the formula will therefore apply as follows:

$$35 \text{ (maximum)} \times 2\% = 70\%$$

From age 65 onward, this benefit would continue for life in the reduced amount of \$1,217.50 per month (70% of \$1,739.29), again on a level basis.

This annuity, with no guarantee period, has a cost of **\$403,816.21**.

Medical & Rehabilitation Benefits

You asked us to assume that the full \$1,000,000.00 limit remains available for Medical & Rehabilitation Benefits.

As you know, your principal is not required to pay this amount on an up-front basis. Rather, it must pay reasonable and necessary Medical & Rehabilitation expenses as they are incurred. The residual figure represents the total cumulative amount which your principal would be obligated to pay over time.

To provide \$1,000,000.00 immediately would therefore exceed your principal's obligations under the automobile policy. The actual lump sum amount which must be set aside to provide for ongoing expenses depends upon the rate at which Ms. Doe's Medical & Rehabilitation requirements are expected to be payable. The more expensive her monthly costs are, the sooner the residual limit will exhaust, and the higher the lump sum amount required to purchase an annuity to provide these ongoing obligations.

In this regard, you have asked me to assume that Ms. Doe will require payments of \$2,000.00 per month until the residual amount of \$1,000,000.00 has been exhausted. In order to determine the date at which this residual limit will exhaust, we have had to use an assumed rate of escalation, since the rate of future Consumer Price Index increases cannot be predicted. We have therefore proceeded on the basis of an assumed 2% per annum rate of escalation, and have determined that at this rate of increase, the \$1,000,000.00 limit will be exhausted in approximately 30 years, 7 months.

This is demonstrated in the attached illustrative printout. Under this scenario, therefore, your principal would have no further Medical & Rehabilitation obligation to Ms. Doe upon her death, or after November 1, 2036 (whichever occurs first).



We have therefore obtained the cost of an annuity commencing April 1, 2006 in the amount of \$2,000.00 per month, indexed at the rate of 2% per annum compounded, and payable for 30 years and 7 months, with a final payment of \$1,007.16 on November 1, 2036 to completely exhaust the \$1,000,000.00 limit.

The current cost of this annuity, with no guarantee period, is **\$505,710.60**.

Attendant Care

You asked us to assume that the full \$1,000,000.00 limit remains available, and that Ms. Doe would require the maximum monthly limit of \$6,000.00 per month. We have therefore obtained the cost of an annuity commencing April 1, 2006 in the amount of \$6,000.00 per month, payable on a level basis until the limit of \$1,000,000.00 has been exhausted. This results in a payment period of 13 years and 10 months, with a final payment of \$4,000.00 on February 1, 2020 to completely exhaust the limit.

This annuity, with no guarantee, has a current cost of **\$764,056.28**.

Housekeeping Expenses

For this benefit, you have asked that we use the \$100.00 per week maximum rate of usage.

We have therefore costed an annuity commencing April 1, 2006 in the amount of \$434.82 per month (\$100.00 per week), payable on a level basis for Ms. Doe's lifetime.

This annuity, with no guarantee, has a current cost of **\$104,682.96**.

Summary

The total cost of the benefits outlined is as follows:

<i>Benefit</i>	<i>Annuity Cost</i>
Income Replacement	\$403,816.21
Medical & Rehabilitation	\$505,710.60
Attendant Care	\$764,056.28
Housekeeping	\$104,682.96
Total	\$1,778,266.05

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These costs can be used as market values for settlement negotiations.

Of course, all of the costs outlined are based on rates currently in effect which are subject to fluctuation between now and such time as we are placed in funds.

You will note that the annuities contain no guarantee period, and in this regard I would offer the following comments:

Pure No-Fault Approach

XYZ Casualty Company could take the approach that they wish to simply purchase an annuity to fulfil their payment obligations under the automobile policy. The purchase of an annuity means that XYZ Casualty could simply transfer its obligation to make the payments to a life insurer. With a Pure No-Fault Annuity, XYZ Casualty retains total control over the payments, and can commute the annuity contract at any time, for any reason. This would usually only be done in the event of death or disentitlement.

With this approach, the inclusion of a guarantee period has the effect of preserving XYZ Casualty's reversionary interest in the annuity. If an annuity is purchased with no guarantee, payments will simply cease upon the death of Ms. Doe, regardless of when this might occur. If, on the other hand, an annuity has been purchased with a guarantee period to age 65, and Ms. Doe dies after receiving, say, only 10 years of payments, XYZ Casualty will have the right to take the remaining guaranteed payments as they fall due or alternatively, can elect to receive a lump sum payment equal to the present value of the remaining guaranteed payments.

The guarantee period, then, offers the purchasing casualty company a certain degree of financial protection for their investment.

Negotiated Final Settlement

This approach involves using annuity costs to determine the present value of benefits owed, and then **using these costs as a basis for negotiation of a once and for all settlement**. Should this final settlement incorporate a structure, the guarantee period becomes negotiable between the parties involved. XYZ might offer to relinquish its reversionary interest. In a Negotiated Final Settlement, the relinquishing of a reversionary interest by the casualty company typically becomes the basis for negotiating a discounted settlement amount, **in addition** to the discount which might be sought simply by offering the claimant the right to a structured settlement.

I hope this material is of assistance to you. Once you have had a chance to review it, you may wish to give me a call to discuss settlement options in greater detail. Indeed, we would be



pleased to attend at any settlement discussions with respect to this matter, as we can produce current figures on site.

I look forward to receiving your comments.

Yours very truly,

Colleen A. Weber
CAW:cmb
Enclosures

MCKELLAR STRUCTURED SETTLEMENTS INC.

JANE DOE (F) D.O.B. MAY 15, 1974

FEB 3, 2006
11:01 a.m.

MEDICAL & REHABILITATION ILLUSTRATION
PAYMENTS COMMENCING APRIL 1, 2006
PAYABLE UNTIL THE EARLIER OF JANE DOE'S DEATH,
OR UNTIL A TOTAL OF \$1,000,000.00 HAS BEEN PAID

BASED ON AN ASSUMED 2% FUTURE ESCALATION RATE

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE

APR 1, 2006 STARTING \$2,000.00 MONTHLY INDEXED @ 2.000% PER YEAR COMPOUNDED

1	31	2,000.00	24,000.00	24,000.00
2	32	2,040.00	24,480.00	48,480.00
3	33	2,080.80	24,969.60	73,449.60
4	34	2,122.42	25,469.04	98,918.64
5	35	2,164.86	25,978.32	124,896.96
6	36	2,208.16	26,497.92	151,394.88
7	37	2,252.32	27,027.84	178,422.72
8	38	2,297.37	27,568.44	205,991.16
9	39	2,343.32	28,119.84	234,111.00
10	40	2,390.19	28,682.28	262,793.28
11	41	2,437.99	29,255.88	292,049.16
12	42	2,486.75	29,841.00	321,890.16
13	43	2,536.48	30,437.76	352,327.92
14	44	2,587.21	31,046.52	383,374.44
15	45	2,638.96	31,667.52	415,041.96
16	46	2,691.74	32,300.88	447,342.84
17	47	2,745.57	32,946.84	480,289.68
18	48	2,800.48	33,605.76	513,895.44
19	49	2,856.49	34,277.88	548,173.32
20	50	2,913.62	34,963.44	583,136.76
21	51	2,971.90	35,662.80	618,799.56
22	52	3,031.33	36,375.96	655,175.52
23	53	3,091.96	37,103.52	692,279.04
24	54	3,153.80	37,845.60	730,124.64
25	55	3,216.87	38,602.44	768,727.08
26	56	3,281.21	39,374.52	808,101.60
27	57	3,346.84	40,162.08	848,263.68
28	58	3,413.77	40,965.24	889,228.92
29	59	3,482.05	41,784.60	931,013.52
30	60	3,551.69	42,620.28	973,633.80

MCKELLAR STRUCTURED SETTLEMENTS INC.

JANE DOE (F) D.O.B. MAY 15, 1974

FEB 3, 2006
11:01 a.m.

MEDICAL & REHABILITATION ILLUSTRATION
PAYMENTS COMMENCING APRIL 1, 2006
PAYABLE UNTIL THE EARLIER OF JANE DOE'S DEATH,
OR UNTIL A TOTAL OF \$1,000,000.00 HAS BEEN PAID

BASED ON AN ASSUMED 2% FUTURE ESCALATION RATE

YEAR	AGE		TAX-FREE PAYMENTS		
			MONTHLY	YEARLY	CUMULATIVE
31	61	7 MONTHS @	3,622.72	25,359.04	998,992.84
NOV 1, 2036 LUMP SUM PAYMENT				1,007.16	1,000,000.00

THE INCOME ILLUSTRATED, ALTHOUGH NOT GUARANTEED, IS, TO THE BEST OF OUR KNOWLEDGE, CORRECT AT THE TIME OF PRODUCTION. RATES MAY HAVE CHANGED SINCE THIS PROPOSAL WAS PREPARED, SO PLEASE CONTACT MCKELLAR STRUCTURED SETTLEMENTS INC. FOR CURRENT RATES.

MCKELLAR STRUCTURED SETTLEMENTS INC.

JANE DOE (F) D.O.B. MAY 15, 1974

FEB 3, 2006
11:02 a.m.

ATTENDANT CARE ILLUSTRATION
PAYMENTS COMMENCING APRIL 1, 2006
PAYABLE UNTIL THE EARLIER OF JANE DOE'S DEATH,
OR UNTIL A TOTAL OF \$1,000,000.00 HAS BEEN PAID

BASED ON THE MAXIMUM AMOUNT PAYABLE OF \$6,000.00 PER MONTH

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE

APR 1, 2006 STARTING \$6,000.00 MONTHLY WITHOUT INDEXATION

1	31	6,000.00	72,000.00	72,000.00
2	32	6,000.00	72,000.00	144,000.00
3	33	6,000.00	72,000.00	216,000.00
4	34	6,000.00	72,000.00	288,000.00
5	35	6,000.00	72,000.00	360,000.00
6	36	6,000.00	72,000.00	432,000.00
7	37	6,000.00	72,000.00	504,000.00
8	38	6,000.00	72,000.00	576,000.00
9	39	6,000.00	72,000.00	648,000.00
10	40	6,000.00	72,000.00	720,000.00
11	41	6,000.00	72,000.00	792,000.00
12	42	6,000.00	72,000.00	864,000.00
13	43	6,000.00	72,000.00	936,000.00
14	44 10 MONTHS @	6,000.00	60,000.00	996,000.00

FEB 1, 2020 LUMP SUM PAYMENT

4,000.00 1,000,000.00

THE INCOME ILLUSTRATED, ALTHOUGH NOT GUARANTEED, IS, TO THE BEST OF OUR KNOWLEDGE, CORRECT AT THE TIME OF PRODUCTION. RATES MAY HAVE CHANGED SINCE THIS PROPOSAL WAS PREPARED, SO PLEASE CONTACT MCKELLAR STRUCTURED SETTLEMENTS INC. FOR CURRENT RATES.

STEP TWO

**CASE SETTLED: LETTER TO PLAINTIFF COUNSEL
(WITH ILLUSTRATIVE PRINTOUTS)**

FRANK McKELLAR M.A., CSSC
RALPH FENIK FCIP
ROBERT B. SMYE CSSC
GORDON A. HORNSVELD B. COMM., C.A.
RITA M. LEVATO B.A., LL.B., CSSC
LAURA A. MULLIN B.A., CIP, CSSC
CATHLEEN M. ALLEN CIP, CSSC



ESTABLISHED 1979

McKELLAR STRUCTURED SETTLEMENTS INC.
McKELLAR FINANCIAL SERVICES

JAMES P. NEVIN FCIP, CSSC
JOHN P. ROUSSEAU LL.B., LL.M., M.B.A., CSSC
GERALDINE R. STRAUS LL.B., CSSC
JAMES S. MOORE LL.B., M.B.A., CSSC **
COLLEEN A. WEBER FCIP, CSSC
MARY ANNE REUEL CIP, CSSC
CECIL L. PAULL CLU, CH.F.C., CFP
** ALSO A MEMBER OF THE NEW YORK BAR

February 3, 2006

Andrea Brown
Smith, Brown
Barristers & Solicitors
Suite 1000, 4321 King Street
Toronto, ON
M4H 3Z2

TRANSMITTED BY MCFAX®

TO FAX NO: 519-223-2223
ATTENTION: A. Brown
NO. OF PAGES:
OPERATOR: Connie Bernard

Dear Ms. Brown:

RE: JANE DOE (F) D.O.B. MAY 15, 1974
DATE OF LOSS: DECEMBER 1, 2000

Further to my recent telephone discussion with Mr. Smith, solicitor for XYZ Casualty Company, we are pleased to provide some illustrative structure printouts for your client's consideration, in advance of our February 7, 2006 meeting with Ms. Doe.

Mr. Smith has advised that a settlement has been reached in the total amount of \$1,450,000.00, and that Ms. Doe has been given the right to structure any portion of this settlement.

Assuming that some funds will be retained as up-front cash to provide for your costs and to allow Ms. Doe to maintain a contingency fund, we have therefore prepared our illustrations based upon a funding assumption of \$1,000,000.00.

The enclosed Options (A) and (B) each provide for lifetime payments commencing April 1, 2006, guaranteed for a minimum period of 30 years. Option (A) provides for indexing at the rate of 2% per annum compounded, while Option (B) illustrates Consumer Price Index (CPI) linked indexation.

In the case do the CPI-linked option, you will note from the enclosed printout that we are only able to illustrate the starting monthly income, since we cannot predict the rate at which future payments will escalate. The benefit of CPI-linkage is that it offers inflation-linked indexation each year.

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Billions of dollars invested, not a penny lost.

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www.mckellar.com



There is no cap on the indexation in periods of extremely high inflation, and the structure payments will **not** be decreased in periods of deflation.

While we cannot illustrate future CPI increases, we can provide an illustration of **past** rates of inflation. I am therefore enclosing a historical printout which illustrates the growth in income which would have occurred **if** Option (B) had been implemented on January 1, 1967. While this is in no way an indicator of future inflation, it does illustrate the protection which a CPI-linked structured settlement affords.

Option (C) also provides for lifetime payments commencing April 1, 2006, indexed at 2% per annum and guaranteed for 30 years. This option also includes a series of guaranteed lump sum payments to provide protection against unexpected capital expenditures which may arise.

All of the figures outlined are, of course, based on rates currently in effect which are subject to fluctuation between now and such time as we are placed in funds. They do incorporate the use of the impairment ratings currently on file for Ms. Doe, which range from +6 to +12 years, based on medical information provided by Mr. Smith's office. These ratings have had the effect of improving the income generated in the lifetime structure options.

I trust this material is of assistance to you, and look forward to receiving your comments.

Yours very truly,

Colleen A. Weber
CAW:cmb
Enclosures

MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (A)

JANE DOE (F) D.O.B. MAY 15, 1974
 LIFETIME PAYMENTS GUARANTEED 30 YEARS
 COMMENCING APRIL 1, 2006

FEB 3, 2006
 1:37 p.m.

\$1,000,000.00 FUNDING

		TAX-FREE PAYMENTS		
YEAR	AGE	MONTHLY	YEARLY	CUMULATIVE

APR 1, 2006 STARTING \$2,956.75 MONTHLY INDEXED @ 2.000% PER YEAR COMPOUNDED

1	31	2,956.75	35,481.00	35,481.00
2	32	3,015.89	36,190.68	71,671.68
3	33	3,076.20	36,914.40	108,586.08
4	34	3,137.73	37,652.76	146,238.84
5	35	3,200.48	38,405.76	184,644.60
6	36	3,264.49	39,173.88	223,818.48
7	37	3,329.78	39,957.36	263,775.84
8	38	3,396.38	40,756.56	304,532.40
9	39	3,464.30	41,571.60	346,104.00
10	40	3,533.59	42,403.08	388,507.08
11	41	3,604.26	43,251.12	431,758.20
12	42	3,676.35	44,116.20	475,874.40
13	43	3,749.87	44,998.44	520,872.84
14	44	3,824.87	45,898.44	566,771.28
15	45	3,901.37	46,816.44	613,587.72
16	46	3,979.40	47,752.80	661,340.52
17	47	4,058.98	48,707.76	710,048.28
18	48	4,140.16	49,681.92	759,730.20
19	49	4,222.97	50,675.64	810,405.84
20	50	4,307.43	51,689.16	862,095.00
21	51	4,393.57	52,722.84	914,817.84
22	52	4,481.45	53,777.40	968,595.24
23	53	4,571.08	54,852.96	1,023,448.20
24	54	4,662.50	55,950.00	1,079,398.20
25	55	4,755.75	57,069.00	1,136,467.20
26	56	4,850.86	58,210.32	1,194,677.52
27	57	4,947.88	59,374.56	1,254,052.08
28	58	5,046.84	60,562.08	1,314,614.16
29	59	5,147.77	61,773.24	1,376,387.40
30	60	5,250.73	63,008.76	1,439,396.16

*** MINIMUM GUARANTEE ***

MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (A)

JANE DOE (F) D.O.B. MAY 15, 1974
 LIFETIME PAYMENTS GUARANTEED 30 YEARS
 COMMENCING APRIL 1, 2006

FEB 3, 2006
 1:37 p.m.

\$1,000,000.00 FUNDING

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE
31	61	5,355.74	64,268.88	1,503,665.04
32	62	5,462.86	65,554.32	1,569,219.36
33	63	5,572.12	66,865.44	1,636,084.80
34	64	5,683.56	68,202.72	1,704,287.52
35	65	5,797.23	69,566.76	1,773,854.28
36	66	5,913.17	70,958.04	1,844,812.32
37	67	6,031.44	72,377.28	1,917,189.60
38	68	6,152.07	73,824.84	1,991,014.44
39	69	6,275.11	75,301.32	2,066,315.76
40	70	6,400.61	76,807.32	2,143,123.08
41	71	6,528.62	78,343.44	2,221,466.52
42	72	6,659.19	79,910.28	2,301,376.80
43	73	6,792.38	81,508.56	2,382,885.36
44	74	6,928.22	83,138.64	2,466,024.00
45	75	7,066.79	84,801.48	2,550,825.48
46	76	7,208.13	86,497.56	2,637,323.04
47	77	7,352.29	88,227.48	2,725,550.52
48	78	7,499.33	89,991.96	2,815,542.48
49	79	7,649.32	91,791.84	2,907,334.32
50	80	7,802.31	93,627.72	3,000,962.04
51	81	7,958.35	95,500.20	3,096,462.24
52	82	8,117.52	97,410.24	3,193,872.48
53	83	8,279.87	99,358.44	3,293,230.92
54	84	8,445.47	101,345.64	3,394,576.56
55	85	8,614.38	103,372.56	3,497,949.12
56	86	8,786.66	105,439.92	3,603,389.04
57	87	8,962.40	107,548.80	3,710,937.84
58	88	9,141.65	109,699.80	3,820,637.64
59	89	9,324.48	111,893.76	3,932,531.40
60	90	9,510.97	114,131.64	4,046,663.04
61	91	9,701.19	116,414.28	4,163,077.32
62	92	9,895.21	118,742.52	4,281,819.84
63	93	10,093.12	121,117.44	4,402,937.28

**MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (A)**

JANE DOE (F) D.O.B. MAY 15, 1974
LIFETIME PAYMENTS GUARANTEED 30 YEARS
COMMENCING APRIL 1, 2006

FEB 3, 2006
1:37 p.m.

\$1,000,000.00 FUNDING

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE
64	94	10,294.98	123,539.76	4,526,477.04
65	95	10,500.88	126,010.56	4,652,487.60

AND THEREAFTER FOR AS LONG AS JANE DOE SHALL REMAIN ALIVE.

THE INCOME ILLUSTRATED, ALTHOUGH NOT GUARANTEED, IS, TO THE BEST OF OUR KNOWLEDGE, CORRECT AT THE TIME OF PRODUCTION. RATES MAY HAVE CHANGED SINCE THIS PROPOSAL WAS PREPARED, SO PLEASE CONTACT MCKELLAR STRUCTURED SETTLEMENTS INC. FOR CURRENT RATES.

PAYMENT(S) TAX-FREE PURSUANT TO IT365R2 AS ISSUED BY CANADA REVENUE AGENCY.

MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (B)

JANE DOE (F) D.O.B. MAY 15, 1974
 LIFETIME PAYMENTS GUARANTEED 30 YEARS
 COMMENCING APRIL 1, 2006

FEB 3, 2006
 1:38 p.m.

\$1,000,000.00 FUNDING

		TAX-FREE PAYMENTS		
YEAR	AGE	MONTHLY	YEARLY	CUMULATIVE

APR 1, 2006 STARTING \$2,424.48 MONTHLY INDEXED @ THE CONSUMER PRICE INDEX

1	31	2,424.48		
---	----	----------	--	--

AND THEREAFTER FOR AS LONG AS JANE DOE SHALL REMAIN ALIVE.

PAYMENTS WILL BE GUARANTEED FOR A MINIMUM PERIOD OF 30 YEARS FROM INCOME COMMENCEMENT.

PAYMENTS WILL NOT BE CAPPED IN PERIODS OF HIGH INFLATION, NOR WILL THEY BE REDUCED IN PERIODS OF DEFLATION.

INDEXING OF MONTHLY PAYMENTS WILL TAKE EFFECT JANUARY 1 OF EACH YEAR AFTER INCOME COMMENCEMENT. THE RATE OF INDEXING WILL BE EQUAL TO THE ANNUAL PERCENTAGE INCREASE OF THE CONSUMER PRICE INDEX (CPI) FOR CANADA, ALL ITEMS (NOT SEASONALLY ADJUSTED), PUBLISHED BY STATISTICS CANADA, FOR THE YEAR ENDING ON THE PREVIOUS OCTOBER 1. AFTER INCOME COMMENCEMENT, FOR CONTRACTS IN FORCE LESS THAN 12 MONTHS ON JANUARY 1, THE PERCENTAGE CHANGE FOR THE FIRST YEAR WILL BE EQUAL TO 1/12TH OF THE RATE OF INDEXING, FOR EACH COMPLETE MONTH BETWEEN THE DATE OF PAYMENT OF THE PREMIUM AND DECEMBER 31.

THE INCOME ILLUSTRATED, ALTHOUGH NOT GUARANTEED, IS, TO THE BEST OF OUR KNOWLEDGE, CORRECT AT THE TIME OF PRODUCTION. RATES MAY HAVE CHANGED SINCE THIS PROPOSAL WAS PREPARED, SO PLEASE CONTACT MCKELLAR STRUCTURED SETTLEMENTS INC. FOR CURRENT RATES.

PAYMENT(S) TAX-FREE PURSUANT TO IT365R2 AS ISSUED BY CANADA REVENUE AGENCY.



McKELLAR STRUCTURED SETTLEMENTS INC.

**** ILLUSTRATION ONLY ****

JANE DOE (F) D.O.B. MAY 15, 1974
40 YEARS OF PAYMENTS
COMMENCING JANUARY 1, 1967

03-Feb-06
1:42 PM

**** ILLUSTRATION ONLY **** HISTORICAL CPI DATA ****

ASSUMES A PURCHASE OF A CPI LINKED ANNUITY ON JANUARY 1, 1967
SAME START INCOME AS PROPOSAL OPTION (B)

YEAR	DATE	INDEX RATE	----- TAX-FREE PAYMENTS -----		
			MONTHLY	YEARLY	CUMULATIVE

January 1, 1967 starting at \$2,424.48 per month indexed @ CPI

1	01/Jan/1967		2,424.48	29,093.76	29,093.76
2	01/Jan/1968	3.3654%	2,506.07	30,072.84	59,166.60
3	01/Jan/1969	4.1860%	2,610.98	31,331.76	90,498.36
4	01/Jan/1970	4.4643%	2,727.54	32,730.48	123,228.84
5	01/Jan/1971	3.4188%	2,820.79	33,849.48	157,078.32
6	01/Jan/1972	2.8926%	2,902.38	34,828.56	191,906.88
7	01/Jan/1973	4.8193%	3,042.25	36,507.00	228,413.88
8	01/Jan/1974	7.6628%	3,275.37	39,304.44	267,718.32
9	01/Jan/1975	10.6762%	3,625.05	43,500.60	311,218.92
10	01/Jan/1976	10.9325%	4,021.36	48,256.32	359,475.24
11	01/Jan/1977	7.5362%	4,324.42	51,893.04	411,368.28
12	01/Jan/1978	7.8167%	4,662.45	55,949.40	467,317.68
13	01/Jan/1979	9.0000%	5,082.07	60,984.84	528,302.52
14	01/Jan/1980	9.1743%	5,548.31	66,579.72	594,882.24
15	01/Jan/1981	10.0840%	6,107.80	73,293.60	668,175.84
16	01/Jan/1982	12.4046%	6,865.45	82,385.40	750,561.24
17	01/Jan/1983	10.8659%	7,611.44	91,337.28	841,898.52
18	01/Jan/1984	5.8193%	8,054.37	96,652.44	938,550.96
19	01/Jan/1985	4.3415%	8,404.05	100,848.60	1,039,399.56
20	01/Jan/1986	4.0222%	8,742.08	104,904.96	1,144,304.52
21	01/Jan/1987	4.1333%	9,103.42	109,241.04	1,253,545.56
22	01/Jan/1988	4.3534%	9,499.73	113,996.76	1,367,542.32
23	01/Jan/1989	4.0491%	9,884.38	118,612.56	1,486,154.88
24	01/Jan/1990	4.9528%	10,373.94	124,487.28	1,610,642.16
25	01/Jan/1991	4.8315%	10,875.15	130,501.80	1,741,143.96

McKELLAR STRUCTURED SETTLEMENTS INC.

****** ILLUSTRATION ONLY ******

**JANE DOE (F) D.O.B. MAY 15, 1974
40 YEARS OF PAYMENTS
COMMENCING JANUARY 1, 1967**

**03-Feb-06
1:42 PM**

****** ILLUSTRATION ONLY **** HISTORICAL CPI DATA ******

**ASSUMES A PURCHASE OF A CPI LINKED ANNUITY ON JANUARY 1, 1967
SAME START INCOME AS PROPOSAL OPTION (B)**

YEAR	DATE	INDEX RATE	----- TAX-FREE PAYMENTS -----		
			MONTHLY	YEARLY	CUMULATIVE
26	01/Jan/1992	5.5734%	11,481.27	137,775.24	1,878,919.20
27	01/Jan/1993	1.5228%	11,656.11	139,873.32	2,018,792.52
28	01/Jan/1994	1.8000%	11,865.92	142,391.04	2,161,183.56
29	01/Jan/1995	0.1965%	11,889.23	142,670.76	2,303,854.32
30	01/Jan/1996	2.1569%	12,145.66	145,747.92	2,449,602.24
31	01/Jan/1997	1.6315%	12,343.81	148,125.72	2,597,727.96
32	01/Jan/1998	1.6053%	12,541.96	150,503.52	2,748,231.48
33	01/Jan/1999	0.9294%	12,658.52	151,902.24	2,900,133.72
34	01/Jan/2000	1.7495%	12,879.99	154,559.88	3,054,693.60
35	01/Jan/2001	2.7149%	13,229.67	158,756.04	3,213,449.64
36	01/Jan/2002	2.5551%	13,567.70	162,812.40	3,376,262.04
37	01/Jan/2003	2.2337%	13,870.76	166,449.12	3,542,711.16
38	01/Jan/2004	2.7731%	14,255.41	171,064.92	3,713,776.08
39	01/Jan/2005	1.8806%	14,523.50	174,282.00	3,888,058.08
40	01/Jan/2006	2.1669%	14,838.21	178,058.52	4,066,116.60

THE ABOVE ILLUSTRATION REFLECTS AN ANNUITY WHICH COMMENCED ON JANUARY 1, 1967 AND WAS INDEXED EACH YEAR TO THE CHANGE IN THE CONSUMER PRICE INDEX FOR THE PREVIOUS CALENDAR YEAR. INDEXING OF MONTHLY PAYMENTS TOOK EFFECT ON JANUARY 1 OF EACH YEAR. PAYMENTS BEYOND 2006 CANNOT BE ILLUSTRATED AS FUTURE INCREASES IN THE CPI ARE UNKNOWN.

INDEX RATES PER STATISTICS CANADA (1992 = 100)



**MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (C)**

JANE DOE (F) D.O.B. MAY 15, 1974
LIFETIME PAYMENTS GUARANTEED 30 YEARS
COMMENCING APRIL 1, 2006
PLUS LUMP SUM PAYMENTS

FEB 3, 2006
1:40 p.m.

\$1,000,000.00 FUNDING

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE

APR 1, 2006 STARTING \$2,475.97 MONTHLY INDEXED @ 2.000% PER YEAR COMPOUNDED

1	31	2,475.97	29,711.64	29,711.64
2	32	2,525.49	30,305.88	60,017.52
3	33	2,576.00	30,912.00	90,929.52
4	34	2,627.52	31,530.24	122,459.76
5	35	2,680.07	32,160.84	154,620.60

APR 1, 2011 LUMP SUM PAYMENT

50,000.00 204,620.60

6	36	2,733.67	32,804.04	237,424.64
7	37	2,788.34	33,460.08	270,884.72
8	38	2,844.11	34,129.32	305,014.04
9	39	2,900.99	34,811.88	339,825.92
10	40	2,959.01	35,508.12	375,334.04

APR 1, 2016 LUMP SUM PAYMENT

50,000.00 425,334.04

11	41	3,018.19	36,218.28	461,552.32
12	42	3,078.56	36,942.72	498,495.04
13	43	3,140.13	37,681.56	536,176.60
14	44	3,202.93	38,435.16	574,611.76
15	45	3,266.99	39,203.88	613,815.64

APR 1, 2021 LUMP SUM PAYMENT

50,000.00 663,815.64

16	46	3,332.33	39,987.96	703,803.60
17	47	3,398.98	40,787.76	744,591.36
18	48	3,466.96	41,603.52	786,194.88
19	49	3,536.30	42,435.60	828,630.48
20	50	3,607.02	43,284.24	871,914.72

APR 1, 2026 LUMP SUM PAYMENT

50,000.00 921,914.72

21	51	3,679.16	44,149.92	966,064.64
22	52	3,752.74	45,032.88	1,011,097.52
23	53	3,827.80	45,933.60	1,057,031.12
24	54	3,904.36	46,852.32	1,103,883.44
25	55	3,982.44	47,789.28	1,151,672.72

MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (C)

JANE DOE (F) D.O.B. MAY 15, 1974
 LIFETIME PAYMENTS GUARANTEED 30 YEARS
 COMMENCING APRIL 1, 2006
 PLUS LUMP SUM PAYMENTS

FEB 3, 2006
 1:40 p.m.

\$1,000,000.00 FUNDING

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE
<i>APR 1, 2031 LUMP SUM PAYMENT</i>			50,000.00	1,201,672.72
26	56	4,062.09	48,745.08	1,250,417.80
27	57	4,143.33	49,719.96	1,300,137.76
28	58	4,226.20	50,714.40	1,350,852.16
29	59	4,310.72	51,728.64	1,402,580.80
30	60	4,396.94	52,763.28	1,455,344.08
<i>APR 1, 2036 LUMP SUM PAYMENT</i>			50,000.00	1,505,344.08
*** MINIMUM GUARANTEE ***				
31	61	4,484.88	53,818.56	1,559,162.64
32	62	4,574.57	54,894.84	1,614,057.48
33	63	4,666.07	55,992.84	1,670,050.32
34	64	4,759.39	57,112.68	1,727,163.00
35	65	4,854.58	58,254.96	1,785,417.96
36	66	4,951.67	59,420.04	1,844,838.00
37	67	5,050.70	60,608.40	1,905,446.40
38	68	5,151.71	61,820.52	1,967,266.92
39	69	5,254.75	63,057.00	2,030,323.92
40	70	5,359.84	64,318.08	2,094,642.00
41	71	5,467.04	65,604.48	2,160,246.48
42	72	5,576.38	66,916.56	2,227,163.04
43	73	5,687.91	68,254.92	2,295,417.96
44	74	5,801.67	69,620.04	2,365,038.00
45	75	5,917.70	71,012.40	2,436,050.40
46	76	6,036.05	72,432.60	2,508,483.00
47	77	6,156.78	73,881.36	2,582,364.36
48	78	6,279.91	75,358.92	2,657,723.28
49	79	6,405.51	76,866.12	2,734,589.40
50	80	6,533.62	78,403.44	2,812,992.84
51	81	6,664.29	79,971.48	2,892,964.32
52	82	6,797.58	81,570.96	2,974,535.28
53	83	6,933.53	83,202.36	3,057,737.64



**MCKELLAR STRUCTURED SETTLEMENTS INC.
OPTION (C)**

JANE DOE (F) D.O.B. MAY 15, 1974
LIFETIME PAYMENTS GUARANTEED 30 YEARS
COMMENCING APRIL 1, 2006
PLUS LUMP SUM PAYMENTS

FEB 3, 2006
1:40 p.m.

\$1,000,000.00 FUNDING

YEAR	AGE	TAX-FREE PAYMENTS		
		MONTHLY	YEARLY	CUMULATIVE
54	84	7,072.20	84,866.40	3,142,604.04
55	85	7,213.64	86,563.68	3,229,167.72
56	86	7,357.92	88,295.04	3,317,462.76
57	87	7,505.07	90,060.84	3,407,523.60
58	88	7,655.18	91,862.16	3,499,385.76
59	89	7,808.28	93,699.36	3,593,085.12
60	90	7,964.45	95,573.40	3,688,658.52
61	91	8,123.73	97,484.76	3,786,143.28
62	92	8,286.21	99,434.52	3,885,577.80
63	93	8,451.93	101,423.16	3,987,000.96
64	94	8,620.97	103,451.64	4,090,452.60
65	95	8,793.39	105,520.68	4,195,973.28

AND THEREAFTER FOR AS LONG AS JANE DOE SHALL REMAIN ALIVE.

THE INCOME ILLUSTRATED, ALTHOUGH NOT GUARANTEED, IS, TO THE BEST OF OUR KNOWLEDGE, CORRECT AT THE TIME OF PRODUCTION. RATES MAY HAVE CHANGED SINCE THIS PROPOSAL WAS PREPARED, SO PLEASE CONTACT MCKELLAR STRUCTURED SETTLEMENTS INC. FOR CURRENT RATES.

PAYMENT(S) TAX-FREE PURSUANT TO IT365R2 AS ISSUED BY CANADA REVENUE AGENCY.

**APPENDIX “B” – BILL 164 CASE STUDY
ILLUSTRATIVE SETTLEMENT**

ILLUSTRATIVE SETTLEMENT - ACTUAL BILL 164 CASE

Valuation

A request was made to cost SABS Benefits for a 44 year old female, C 6/7 quadriplegic.

Item	Benefit Amounts	Past Benefits	Structure Cost of Future Benefits*
L.E.C.	\$1,599.17 per month	--	\$ 300,370.15
Medical/Rehabilitation	\$40,000.00 per year	--	444,779.83
Attendant Care	\$6,552.87 per month	\$30,000.00	1,326,537.37
Housekeeping & Home Maintenance/ Visitation	\$100.00 per week	27,000.00	79,576.44
Subtotal		\$57,000.00	\$2,151,263.79
TOTAL VALUE (Including Past Benefits)			\$2,208,263.79

*Based on a +20 year impairment rating.

Settlement

Negotiations took place over two complete days during which seven settlement demands and offers were made. Throughout, on-site revised SABS values were provided to both plaintiff and defence counsel, in accordance with their respective requests.

Final settlement was agreed at \$1,725,000.00 with a 100% reversionary interest to the casualty insurer on a structure amount of \$1,000,000.00. The balance of the settlement funds (\$725,000.00) were paid as up-front cash.

Key Issues of Negotiation

1. Reversion: Who should get it - claimant or insurer?
2. Attendant Care: Does claimant qualify for \$6,000/month maximum or \$10,000/month?
3. Med & Rehab: What does claimant really require vs. Future Care report? What is reasonable and necessary?
4. Housekeeping and Home Maintenance: What is reasonable and necessary?
5. Discount: What is appropriate for this case?

Settlement Result: Insurer obtained discount of \$483,263.79 or 21.9%.

AND

Retained 100% reversion on \$1,000,000.00 structured settlement.