

# INVESTMENT VS. STRUCTURE

## CONCERN: WHAT TYPES OF SECURITIES/INSURANCE PRODUCTS SUPPORT THE PAYMENTS?

STRUCTURED SETTLEMENTS	BANK TRUSTS	CDs	EQUITY MUTUAL FUNDS	MUNICIPAL BONDS	TREASURY SECURITIES	EDUCATION IRAS	529 COLLEGE PLANS	VARIABLE LIFE POLICIES	VARIABLE ANNUITIES
A fixed annuity contract issued by a life insurance company.	For cases involving incompetent individuals, minors or serious injuries, investments may be restricted to federally insured products (i.e., Certificates of Deposit). For others, any investment may be used — fixed income, stocks, bonds, and mutual funds. These securities are NOT F.D.I.C.-insured.	A debt instrument issued by a bank. Maturity options range from a few weeks to several years.	An investment company operates the fund, pooling the assets of many investors and investing in equity securities.	Debt instruments issued by state or local government entities to finance capital expenditures.	Debt instruments issued by the U.S. government and sold as securities to investors.	Offer a variety of investment options, each with its own rate of return.	Offer a variety of investment options, each with its own rate of return.	A variable life (VLI) policy issued by a life insurance company. Assets are invested in separate accounts that invest in equities, bonds or money market instruments.	A variable annuity contract issued by a life insurance company. Consists of two stages: accumulation and payout. Assets may be invested in variable income options and/or in fixed interest accounts to seek interest or capital appreciation.

## CONCERN: CAN THIS OPTION PROVIDE A STABLE, LIFETIME INCOME?

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Yes. Payments and distribution schedule are determined up front. Can provide a dependable, predictable income stream that you cannot outlive.	Any income or return will depend on the type and performance of the underlying investments.	No. Pays a fixed rate of interest that accumulates in the account for the duration of the CD. Relatively low returns and penalties for early withdrawals make CDs inefficient for providing an adequate income stream.	Historically, equities have shown the greatest potential for long-term growth. But they also entail a higher degree of investment risk, which means they may not be a reliable source for ongoing income needs. Earnings may stop altogether if a fund performs poorly.	Since the coupon — or rate of payment — of the bonds is known in advance, investors may have a reliable income stream (see guarantee section below). Bond must be held to maturity to receive the face value, or par amount, of the bond.	Yes. Available with a wide range of maturities, Treasuries offer predictable income and repayment of principal in full if held to maturity.	No. This option is designed only as a savings vehicle for qualifying educational expenses.	No. This option is designed only as a savings vehicle for qualifying educational expenses.	Designed to provide a death benefit rather than an income stream. In most cases, you have to pay the periodic premiums.	No income until you select an annuitization (i.e., payout) option. Usually paid as a lump sum or an income stream of lifetime payments.

## CONCERN: IS THERE A GUARANTEE WITH THIS OPTION?

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Yes. The annuity issuer guarantees payments according to the terms of the structured settlement agreement.	Federal Deposit Insurance Corporation (FDIC) insures up to \$100,000 on Treasuries and CD's. Any other investments are NOT guaranteed.	Yes. The Federal Deposit Insurance Corporation (FDIC) insures CD deposits (up to \$100,000). The issuing bank guarantees amounts over \$100,000.	No. Share prices and returns will fluctuate with investment performance.	Interest is guaranteed only for the initial investment period. If interest rates fall, fixed maturity dates may force investors to reinvest principal and any accrued interest at a time when interest rates are low, shrinking their income. Municipal bonds may have a "call" feature, allowing them to be redeemed prior to the stated maturity date. Bonds are usually called early when interest rates have fallen, effectively refunding investor principal at a time when reinvestment options reflect lower rates.	Considered among the safest of all investments because payment of interest and principal at maturity is guaranteed by the full faith and credit of the U.S. government.	No guaranteed return on investment.	No guaranteed return on investment.	Some contracts guarantee a minimum death benefit as long as you continue to pay the premium. The cash value of the policy is subject to risks that affect the underlying investments.	If a variable payment is elected, the amount of the benefit will depend on underlying investment performance. If a fixed payment is elected, the annuity issuer guarantees a monthly benefit amount as defined by contract terms.

**CONCERN:** WHAT ARE THE COSTS AND FEES ASSOCIATED WITH THIS OPTION?

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No additional cost to annuitant.	Bank management fee of 1-1.25% of asset value per year, every year. Transaction processing costs for securities purchased. Management fees from the various securities in which the trust invests (i.e. 12(b)1 fees on mutual funds).	No commissions apply, although there is a penalty for early withdrawal of funds.	Management and expense fees cover the costs of managing the fund and are deducted from returns. Fund may also charge a front- or back-end "load" (i.e., sales charge), redemption fees (paid by investors when they "redeem," or sell shares) and 12(b)1 charges.	Issued at face value.	T-bills are issued at a discount from face value. Treasury issues may be purchased directly (the primary market) or via outstanding issues sold prior to maturity by other investors through a broker (the secondary market). If purchased via the secondary market, brokerage fees will apply.	Account management and securities management fees.	Account management and securities management fees.	Charges and expenses are deducted from the gross premium, the policy, the separate account and/or underlying funds. If deducted from gross premium, fees may include an administrative charge, a sales load and state premium taxes. Deductions at the policy level may include insurance fees. Deductions from separate accounts may include investment management fees, mortality risk and expense risk fees.	Costs may include front- and back-end sales charges, mortality and expense charges, management fees, and other applicable expenses.

**CONCERN:** WILL THIS OPTION KEEP PACE WITH INFLATION?

STRUCTURED SETTLEMENTS	BANK TRUSTS	CDs	EQUITY MUTUAL FUNDS	MUNICIPAL BONDS	TREASURY SECURITIES	EDUCATION IRAS	529 COLLEGE PLANS	VARIABLE LIFE POLICIES	VARIABLE ANNUITIES
A cost-of-living adjustment (COLA) feature is available that can help offset the effects of inflation. This option must be elected when the settlement is designed.	It depends on the performance of the underlying securities.	Unlikely, since CDs are considered a low-risk/low-yield investment.	Designed for long-term growth. Historically, a good choice for keeping up with inflation. Total return will depend on the performance of underlying securities. Past performance is not an indicator of future results.	Do not provide a hedge against inflation.	Do not provide a hedge against inflation.	Not predictable, since investment returns will depend on market factors.	Because investment returns are not predictable, there is no guarantee that this option will keep pace with inflation.	Depends on the performance of underlying investments.	Return (and thus the amount available for payout) depends on the performance of underlying investments.

**CONCERN:** WHAT ARE THE TAX CONSEQUENCES?

STRUCTURED SETTLEMENTS	BANK TRUSTS	CDs	EQUITY MUTUAL FUNDS	MUNICIPAL BONDS	TREASURY SECURITIES	EDUCATION IRAS	529 COLLEGE PLANS	VARIABLE LIFE POLICIES	VARIABLE ANNUITIES
Income provided by a qualified structured settlement is TAX-FREE, provided the damages received as periodic income (other than punitive damages) are the result of personal physical injuries or physical illness.	Generally, income generated is FULLY TAXABLE (except some income from tax-free municipal bonds). Capital gains taxes may apply when securities are sold.	Earnings are fully taxable.	Taxes must be paid as income is earned and distributed. Capital gains or losses from sales of mutual fund shares have additional tax consequences.	Generally, interest is exempt from federal income tax. May also be exempt from state and local taxes in state of issue.	Subject to federal taxes, but exempt from state and local taxes.	Tax-deferred. Withdrawals are tax-free only if funds are used for qualifying educational expenses.	Withdrawals are exempt from federal income tax only if used for qualifying educational expenses. Income tax and 10% penalty must be paid on any withdrawals for non-educational purposes.	No income taxes on death benefit. Local premium and estate taxes may apply. Loans or withdrawals will reduce the policy's cash value and death benefit. Liquidation of earnings is subject to ordinary income tax, and, if taken prior to age 59, a 10% federal penalty may apply.	Earnings accumulate tax-deferred during the accumulation phase. During the payout phase, payments consist of principal plus earnings. Liquidation of earnings is subject to ordinary income tax, and, if taken prior to age 59, a 10% federal penalty may apply.

**CONCERN: IS THIS OPTION AFFECTED BY MARKET FLUCTUATIONS?**

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No. Benefit payments are determined and fixed at the time the annuity contract is issued.	Payment amounts are fixed, but how long they last may be affected by the performance of the underlying securities.	Yield will depend on interest rates, which are determined by competitive forces in the market. These tend to be short-term investments that may actually produce a lower income if interest rates decline.	Fund yield, share price and return will vary, depending on market conditions. You may have a gain or a loss, depending on when you sell your shares.	Yes. Value will be affected by interest rate fluctuations and municipality's stated call options.	If Treasuries are held to maturity, investors receive the full face value — regardless of market conditions. If sold prior to maturity, value is subject to market conditions. Investors may receive more or less than they paid, resulting in a potential capital gain or loss.	Yes. Any earnings from principal will be affected by market ups and downs.	Yes. Earnings and principal will be affected by market ups and downs.	Yes. Cash values and death benefit will fluctuate (may decrease to 0) based on market conditions.	Yes. Investment performance will affect the payout amount.

**CONCERN: CAN I MAKE CHANGES TO THIS OPTION AFTER I SELECT IT?**

STRUCTURED SETTLEMENTS	BANK TRUSTS	CDs	EQUITY MUTUAL FUNDS	MUNICIPAL BONDS	TREASURY SECURITIES	EDUCATION IRAS	529 COLLEGE PLANS	VARIABLE LIFE POLICIES	VARIABLE ANNUITIES
No. The payment amount and schedule are fixed and may not be changed or accelerated.	It depends on the types of securities and the terms of the trust. Payments may be withheld at the trustee's discretion.	Although it is possible to withdraw assets prior to maturity, there generally is a penalty for early withdrawal.	Money can be withdrawn or moved from one mutual fund to another. Charges, fees and taxes may apply to each transaction.	Yes. If sold or redeemed prior to maturity, value is subject to market conditions. Investors may receive more or less than they paid, resulting in a potential capital gain or loss.	An active secondary market provides liquidity. There may be a gain or loss if bond is sold or redeemed prior to maturity.	Subject to annual income and contribution limitations. Cannot be used with other education tax incentives.	Maximum allowable contributions vary by state. Once plan is set up, no changes to the investment options are allowed. Some states require that student must attend school within the same state.	Policy may be terminated or cash value may be obtained through policy loan provisions. Surrender charges may apply. Loans or withdrawals will reduce the policy's cash value and death benefit. Liquidation of earnings is subject to ordinary income tax, and, if taken prior to age 59, a 10% federal penalty may apply.	Most variable annuities provide for withdrawal of a specified amount free of charge. Withdrawals in excess of that amount may trigger surrender charges. Liquidation of earnings is subject to ordinary income tax, and, if taken prior to age 59, a 10% federal penalty may apply.