McKellar
STRUCTURED SETTLEMENTS

STRUCTURED SETTLEMENTS FROM AN INVESTOR'S PERSPECTIVE

TRUE STATEMENT: There is no investment available that can **guarantee** a better rate of return than a structured settlement.

When taxes and investment fees are considered, even a well-managed investment portfolio must achieve above-average returns year after year (every single year) just to match the return from a structured settlement.

STRUCTURED SETTLEMENTS ARE OFTEN COMPARED TO **"BALANCED"** INVESTMENT PORTFOLIOS

Most people are aware that GICs and Government Bonds currently yield less than structured settlements of similar durations—not to mention the fact that structure yields are tax-free. Fewer people are aware, however, of just how unrealistic it is to assume that a well-managed, balanced investment portfolio can outperform current structured settlement returns. In fact, such a fund would be hard-pressed to match the structure return, never mind outperform it.

CONSIDER THE FOLLOWING:

An alternative investment proposal often illustrates a prospective return of 6% annual growth into the future. This is a common projection from financial advisors for balanced portfolios with "minimal" risk. Keep in mind that the 6% is not guaranteed (we all know that past performance is no guarantee of continued future performance). But let's assume that this 6% return is actually achieved. What does that produce for the client after management fees and taxes?

PROJECTED RETURN

6%

(Not a guaranteed investment and therefore a potential risk of lower or even negative returns)

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subtract

OVERALL TAX RATE

20%

subtract

MANAGEMENT EXPENSE FEE[1]

(Plus HST)

2.2%

=

NET RETURN

2.81%

THIS IS LESS THAN **A 20 YEAR** *(TAX-FREE, NO-FEE)* **STRUCTURED SETTLEMENT!**

[1] *According to the Investment Funds Institute of Canada, 2015 Update, Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios, "average total cost of ownership of mutual funds for clients using advice-based distribution channels in Canada was 2.2% at the end of 2014".*

Comparing **structured settlements** to **non-guaranteed, taxable investments** is like comparing apples to oranges. In order to make accurate comparisons, three simple questions should always be asked:

Q1 **What is the impact of taxes?**

Q2 **What is the impact of fees?**

Q3 **What is the level of risk?**

CAN A BALANCED PORTFOLIO REALLY PROVIDE A BETTER RETURN?

Stop comparing apples to oranges.

THE **PLAINTIFF'S** REALITY: MOST PLAINTIFFS ARE LIKE "RETIREES"

Structured settlements are like the best possible defined benefit pension plan.

Many plaintiffs face a future with little or no employment income to meet their daily living expenses. Many will also have extraordinary medical expenses. Don't underestimate the investment value of a structured settlement. It is your client's one chance to build a **guaranteed, tax-free "paycheque"** with a rate of return that cannot be matched without investment risk.

RULE #1:
NEVER LOSE MONEY

RULE #2:
NEVER FORGET RULE #1

WARREN BUFFETT

For a full presentation on structured settlements from an investor's perspective, contact one of the professionals at McKellar.

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