THE PERFECT PAIR: PROFESSIONAL ADMIN & STRUCTURED SETTLEMENTS

AMETROS

A SAFE STRATEGY TO PRESERVE MSA SETTLEMENT FUNDS

Professional Administration & Structured Settlements

The combination of Professional Administration with a Structured Settlement (annuity) is often times the best way to protect an injured party's settlement dollars. In the event of an unexpectedly very costly year due to higher than anticipated medical needs after settlement, it is in the best interest of the injured party to save the most money possible. The combination of these services in a costly scenario allows the injured party to access more coverage from Medicare and pay fewer dollars out of their own pocket.

What is Professional Administration?

Professional administration involves the use of a professional third party to help manage the injured party's medical settlement funds or Medicare Set Aside (MSA) after settlement.

When an MSA account runs out of funds and reaches a zero-dollar account balance, as long as it is administered properly, Medicare agrees to step in as the secondary payer covering the ongoing and needed medical expenses. Medicare "highly recommends" the use of professional administration to make sure the funds are extended as long as possible through discounts. If the funds are used appropriately for medical care, and ultimately reported properly, Medicare will then step in as the payer.

MARQUES TORBERT
CEO

"Professional Administration achieves two important goals. It saves the injured party significant money on their medical expenses by providing them with access to discounted medical network prices, and it ensures that all their reporting to Medicare for a Medicare Set Aside account is done properly."

What Is a Structured Settlement?

A structured settlement is a stream of periodic payments paid to an injured party by the defendant primarily through the purchase of annuity (fixed and determinable) issued directly by highly rated life insurance companies. In the case of an MSA, the annuity will enable the issuance of annual payments that cover the entire MSA amount.

ERIC VAUGHN
Executive Director at NSSTA

As Eric Vaughn, Executive Director of the National Structured Settlements Trade Association, explains, "Structured settlements provide an injured party with a reliable, stable source of income which can be critical to cover their ongoing medical costs. A structured settlement removes the variability of the markets and guesswork out of funding their future expenses."

The Centers for Medicare & Medicaid Services ("CMS" or "Medicare") is accustomed to the use of annuities with MSAs. Medicare has provided clear guidelines for how the MSA should be set up when annuities are involved, with two years of costs funded up front and the rest of the cost broken out annually over the injured person's lifetime. When an MSA is sent to CMS for approval, CMS will review and approve MSAs with structures.

The Conservative Approach

When assessing future medical costs in an MSA, it's important to take a very conservative approach.

Using a structured settlement and professional administration for the MSA can provide valuable protection to an injured party should they have a costly year. The combination of these services will allow the injured party to properly get coverage from Medicare in the event their MSA funds run out. That Medicare coverage can, in many cases, ensure that the injured person pays less out of their own pocket.

As Vaughn points out, "Annuities are a natural fit with MSAs, given the annual medical expenses are already budgeted over the individual's lifetime." And Torbert adds, "Attorneys and adjusters alike are recognizing the power of combining the annuity with administration not only to assist the injured party in saving money, but also to provide them with support for their medical care over the long-run."

It's important to keep in mind, not all professional administrators and annuities are the same. Choose an administrator that provides the best service and saves the injured party most on medical expenses. When choosing annuities, it's important to work with a trusted broker and to select a reliable, highly-rated life insurance company. Speak with experts in both administration and structures to make sure you and/or your client make the right selection to ensure you have the most financial protection.

To learn more about Ametros' administration services click here

To learn more about NSSTA & Structured Settlements, click here

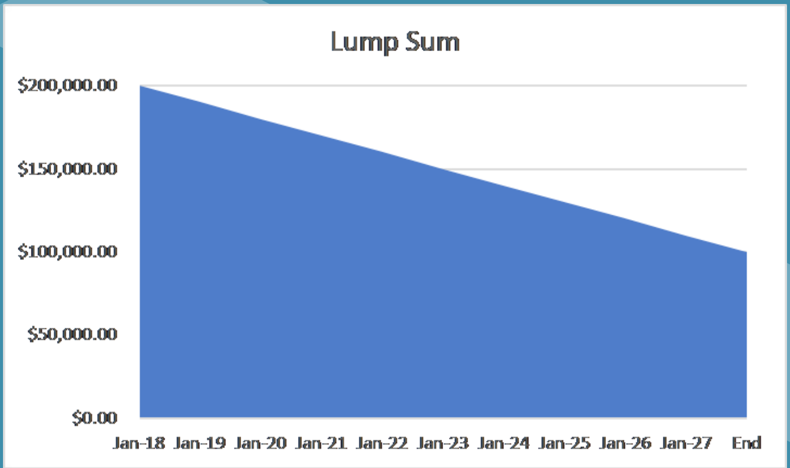
Case Study

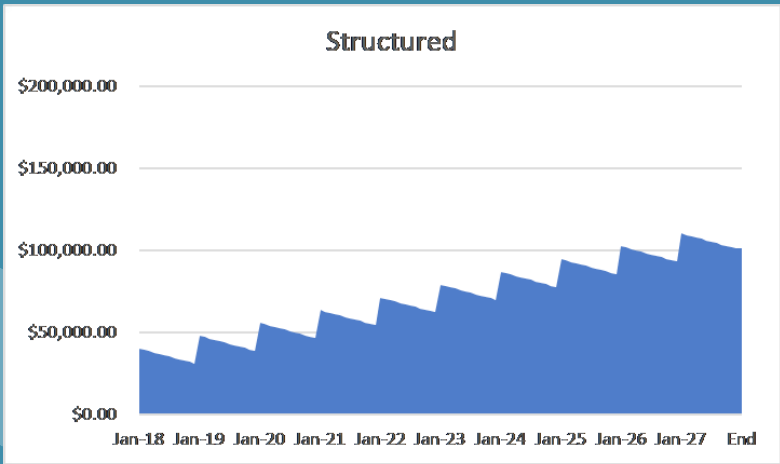
Let's take a look at an example of how our injured party, Joe, can leverage these two important services to protect his settlement dollars in the MSA.

Let's assume that Joe accepted a settlement with an MSA worth $200,000 and has a life expectancy of 10 years. He is expected to spend $20,000 a year on medical costs out of his MSA.

Scenario 1:

In this first, good scenario, let's assume that Joe is doing well and is using professional administration to receive discounts so he only spends $10,000 a year on MSA medical items. Here's a look at how the balances of his MSA account would look over the next ten years with a lump sum settlement versus a structured annuity settlement.





LUMP SUM VS. STRUCTURES

The **lump sum account** is funded at $200,000 and is spent down to $100,000 at the end of the ten-year period. We are assuming the funds are spent smoothly over the life expectancy at a steady average spending rate with no anomalies or adverse years.

The **structured account** is funded according to Medicare's methodology. With a life expectancy of 10 years and a settlement value of $200,000, this means Joe would need about $20,000 per year over ten years. Medicare asks that 2 years of funding be provided upfront, so the account is "seeded" or initially funded with $40,000 and then Joe receives an annual payment of $17,778 (or a total of $160,000 over the next 9 years - $17,778 x 9 years). That is why the structured account looks like a saw-blade with it jumping up each time Joe receives a $17,778 check and then his balance is being spent down by the same $10,000 per year.

Following Medicare Guidelines

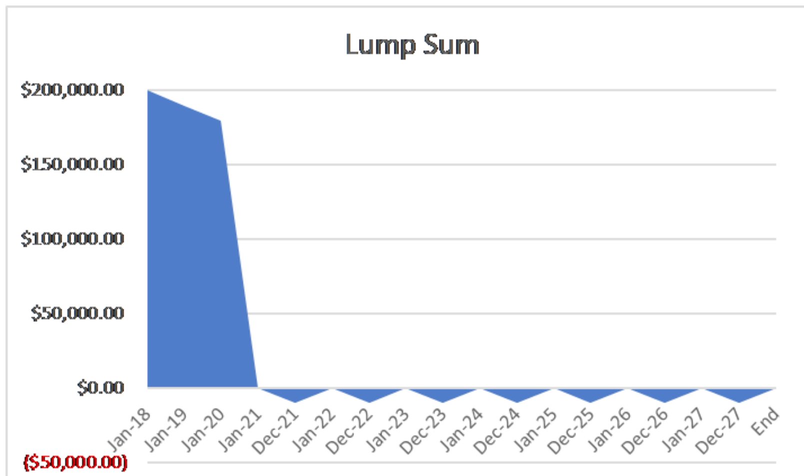
While looking at these scenarios, it's important to know that when the MSA has available funds, the injured party (Joe) pays 100% for all costs that are related to the injury and would be Medicare-covered.

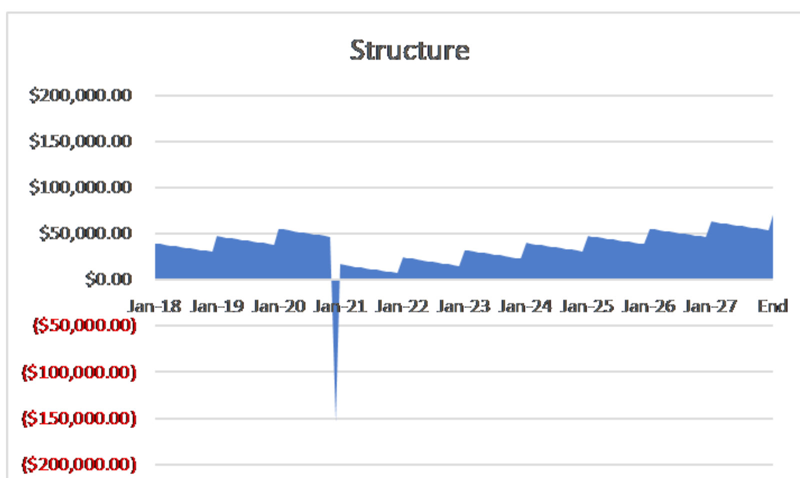
But, how are costs paid for once the MSA is exhausted? Upon verifying via reporting that the MSA was properly exhausted, Medicare will step up and cover roughly 80% of the costs, just like it does for any other normal Medicare beneficiary. That means the injured party only needs to contribute about 20% to each treatment/procedure and Medicare will in essence "subsidize" the remaining 80% of the cost. Since the injured party will have exhausted their MSA funds, they will need to rely on other personal funds to pay the Medicare copays/deductibles associated with their ongoing care.

Now back to Joe...

Scenario 2

Let's assume that Joe is offered the exact same MSA settlement amount and starts out on the same pace, spending $10,000 a year. Unfortunately, three years after settlement, Joe needs to pay for a complex surgery that ends up costing him $200,000! Let's see how the balances of his account change for the lump sum and structured scenarios.





Scenario 2

Lump Sum:

In the year of the surgery, the Lump Sum account is taken to zero. The account had $170,000 in it (after 3 years), but the $200,000 expense exhausts the account. From that point forward, Joe will never have funds in his MSA account again. If he administered the account properly (likely utilizing professional administration), Medicare will step in as the payer for his ongoing costs. However, Medicare will only cover roughly 80% of the costs. So, in the year of the surgery, there are costs of $30,000 that go beyond the funds in the MSA account ($170,000 in the account less $200,000 in surgery costs). Joe will need to come up with 20% of that money himself. That is $6,000 of personal funds and then, each year after that, he will still have the $10,000 standard costs and he will have to come up with $2,000 (20% of $10,000) of money from somewhere else each year to pay his Medicare contributions. In total, Joe will lose all the value of his MSA account and have to pay $20,000 of his personal funds toward Medicare over the ten-year period.

Structured Settlement:

On the other hand, the structured account suffers one year of large loss when the surgery occurs, but then begins to accumulate value from the annual savings with the same saw-blade movement we saw before. At the time of the surgery, the structured account has about $47,400 of funds, but is quickly exhausted. Again, if administered properly, the remaining $153,600 of costs will be run through Medicare. Medicare will cover 80% of that cost and Joe will need to contribute about 20% of those costs which amounts to roughly $30,700. However, at the beginning of next year, Joe receives his next annuity check of $17,778 and he continues to only spend $10,000. So, he begins to build back a nice balance in his MSA account of an incremental amount of $7,778 each year ($17,778 minus $10,000).

So which scenario is the better option....

Results

The result is that while Joe spends more of his personal money in the year of the surgery ($30,700), when he has a structured annuity, he makes that loss up over time and actually ends up having about $71,400 in his account at the end of the ten-year period. This means Joe makes up the personal money he spent in the year of the surgery and ends the ten years with a net gain of over $40,000 (which is the $71,400 he has remaining in his account less the $30,700 of personal funds he contributed). That is very significant considering the total settlement was only for $200,000!

Summary

In summary, the outcomes for Joe can be strikingly different. With the Lump Sum settlement, he is losing $20,000 of personal funds and he never again has the chance to build value in his MSA account. With the structured settlement, Joe is actually better off over time, experiencing a net gain of over $40,000. The way Joe settled his case has a very powerful impact on his finances. The difference between the two types of settlements amounts to over $60,000 to Joe! (a net gain of +$40,600 from the structure compared to a net loss of -$20,000 from the lump sum)

See the math below!

Over a 10 Year Period	Lump Sum	Structure
Total Costs Incurred when MSA Account is at zero	($100,000)	($153,611)
Portion Medicare Covers of those Costs (80%)	($80,000)	($122,889)
Out of Pocket Costs (OOP) (20%)	**($20,000)**	**($30,722)**
MSA Funds Remaining After 10 years	**$0**	**$71,389**
Net Position (MSA Funds Remaining + OOP)	**($20,000)**	**$40,667**
Net Difference of Structure vs. Lump Sum Account		**$60,667**

Charts & Calculations Footnotes:

- Charts and calculations are for illustrative purposes only and do not represent legal or tax advice.
- Calculations do not consider a number of other variables that may impact an injured party's funds after settlement, including deposit interest rates, medical cost inflation, and other factors.
- The analysis assumes that the injured party receives the remainder of the funds left in the account at death.
- The calculations assume the annuity has guaranteed payments over ten year period. This is not always the case as structured settlement proposals can vary.
- Charts assume that the account owner uses other personal funds to pay the MSA account balance back to zero at the end of each year and that the surgery cost is incurred in December 2020.
- This summary assumes that the price of care paid from the MSA account is the same as Medicare's prices. In reality, Medicare's pricing for medical treatments is significantly below the workers compensation fee schedule or usual and customary pricing for a self-pay individual. This means the more bills that are run through Medicare when the MSA account is exhausted, the lower pricing on those bills and the roughly 20% contribution from the injured party will be even less. This would likely cause the net benefit of choosing the structured account to be even greater.

Conclusion

At Ametros, we strive to enhance the lives of injured parties by providing them with maximum savings and support.

We believe that professional administration & structured settlements combined are the perfect pair to ensure injured parties are getting the best possible outcome for their post-settlement life.

For more information visit AMETROSCARDS.COM or call us at 877.620.2221

About the Author

Porter Leslie is the President of Ametros. Porter directs the growth of Ametros and works with its many partners and clients. He built his career leading customer-focused businesses in the healthcare and financial services industries. Prior to Ametros, Porter worked in investment banking, private equity and corporate development.

Porter earned a B.A. in Economics from Columbia University, as well as an MBA from the Wharton School and an M.A. from the Lauder Institute at the University of Pennsylvania. Porter is fluent in Spanish and Portuguese and resides in Boston with his wife, Ruth, and son, Camilo.