Kelly Ramsdale is President of Kelly Ramsdale & Associates in Denver, Colorado. She advises plaintiff attorneys and their clients in medical malpractice, wrongful death, products liability, aviation, auto bodily injury, trucking cases, sexual molestation/assault, civil rights and wrongful termination/age discrimination cases. She travels extensively to not only attend mediations, but to personally meet with the injured parties and their families all over the United States. She has been involved in the Columbine High School cases, the 9-11 Victims' Compensation Fund and Pan Am Flight 103 (Lockerbie) cases. She works with many highly renowned firms across the country.

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The Savage Truth on Money by Terry Savage

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We've all heard the stories of individuals who hit it big with the lottery but wind up broke a few years later. Or plaintiffs who win a personal-injury case and squander big cash settlements.

Intelligent planning for these huge sums of money should begin with tax considerations. For instance, lottery winnings are taxable whether a winner takes a lump sum or payments over a lifetime. Lawsuits and settlements may or may not be taxable, depending on the situation. Money paid to compensate for physical injury or wrongful death is not taxable. But other legal settlements — such as for discrimination, breach of contract, sexual harassment or punitive damages — are taxable to the recipient.

Lottery winners typically have a choice: Take all the cash now, or take it in regular payments over 20 years. Taxes are immediately subtracted from the distribution, which is a fixed amount whether taken as a lump sum or over the longer term.

For those who receive awards from a lawsuit, there is another, far better option than just taking the money and paying the taxes. It's called a "structured settlement." This is an arrangement to pay out the money, help manage the money, and ensure that the funds will be handled wisely. In cases of non-physical injury, where the settlement is taxable, a structured settlement can defer taxes, allowing the money to grow until it is paid out in the future.

A structured settlement must be created at the time the case is settled and the award is made, and it must be written into the settlement documents. But some lawyers fail to advise their clients about the potential of structured settlements. They figure that they've won the case and taken their fees, so they leave it up to the client to manage the money.

The key factor in a structured settlement is that it must be purchased by the defendant — the person or company that is determined to be at fault — on behalf of the plaintiff. The defendant, who has an obligation to make the payments, in turn purchases a structured settlement annuity from a life insurance company.

The money can be paid out in numerous ways — weekly, monthly, annually — or any combination of benefit streams. Payments can be made for life, or even include the life of a spouse in some cases.

A structured settlement can be flexible, and does not require a fixed sum every year. For example, money awarded to a minor child could be structured to provide larger sums for college in the appropriate years.

If the money is being paid out tax-free (as a result of a physical injury or death claim), and the recipient dies, his or her beneficiaries will continue to receive payments tax-free.

Since this money is growing inside an insurance contract, it can have a guaranteed rate of return. Here's the best proof that a structured settlement might be the right tactic for all, or a large part, of a huge settlement: Many attorneys are now "structuring" their fees. As long as this is written into the settlement, it permits attorneys to postpone receiving their share of a settlement, and allows the money to grow tax deferred into future years to help build their own retirement assets.

But not all structured settlements are alike. Kelly Ramsdale of Denver, who specializes in this area, notes that the award recipient should make sure that he is dealing with a structured settlement consultant who deals only with plaintiffs. Consultants who work for the defense might try to force the use of a life insurance company related to the defense insurance carrier, and that might not result in the best terms for the plaintiff.

Ramsdale, who has acted as a structured settlement consultant in the Pan Am Flight No. 103 disaster and the Columbine High School cases, among others, has empathy for those who suddenly receive huge monetary awards on top of an incalculable emotional loss.

She said, "The aftermath of these situations is traumatic enough. Survivors need help constructing a plan that is structured to their own needs and circumstances."

In cases of injury or death, receiving a monetary award, no matter how large, is always a bittersweet moment. Still, attorneys and their clients need to understand that the financial settlement is not the end, but a beginning. And that's The Savage Truth.

Terry Savage is a registered investment adviser and is on the board of the Chicago Mercantile Exchange. She appears weekly on WMAQ-Channel 5's 4:30 p.m. newscast, and can be reached at www.terrysavage.com. Her new book, "The Savage Number: How Much Money Do You Make?" has just been published. To find out more about Terry Savage and read her past columns, visit the Creators Syndicate Web page at www.creators.com.