Can You Receive a Texas Personal Injury Settlement in Payments Instead of a Lump Sum?

Scheduled Payments Can Offer Tax-Free Income for Years, but the Terms Are Hard to Change

A serious Texas personal injury settlement often has to cover decades of care along with current bills. Future surgeries, therapy, medical equipment, and lost paychecks can stretch far into the years ahead. Once a case settles, there's usually no going back to ask for more money. That makes the way your compensation is paid almost as important as the amount.

Long-term costs can be staggering after a catastrophic injury. The National Spinal Cord Injury Statistical Center (NSCISC) tracks spinal cord injuries through treatment centers nationwide. Vehicle crashes rank among the leading causes of these injuries. NSCISC reports that about 30 percent of people with these injuries return to the hospital in any given year. It also estimates that paraplegia costs more than $90,000 in health care and living expenses each year after the first year.

Smith & Hassler has recovered more than $1 billion for injured Texans. Our Houston injury attorneys look at how a settlement will be paid, along with what it is worth. For some people, a steady stream of payments offers more security than one large check. For others, a lump sum makes more sense.

What to Know Before You Choose

- **Payments Can Be Tax-Free** – Under federal law, settlement money for physical injuries is generally not taxable, whether it's paid at once or over time.
- **The Schedule Is Usually Locked** – Once the annuity is purchased, payments generally can't be sped up or changed.
- **Inflation Can Erode Fixed Payments** – Some annuities add yearly increases, though that usually means smaller payments at first.
- **Selling Payments Requires a Judge** – Texas law requires court approval and written disclosures before anyone can buy your future payments.
- **Children Get Extra Protection** – Courts review settlements for minors and set standards for the annuity companies that fund them.

What Is a Structured Settlement in a Texas Injury Case?

A structured settlement pays part or all of your compensation over time rather than in one check. In most cases, the at-fault party or its insurance company uses the settlement money to buy an annuity. An annuity is a contract with a life insurance company that promises a series of

future payments. That company then sends you the payments on a set schedule outlined in the settlement agreement.

The schedule can be built around your needs. Payments may arrive monthly or yearly, and some plans add larger payments at set times. A family might plan a bigger payment for a future surgery or a child's college years. Some payments last for a set number of years, while others continue for life. Many settlements combine an upfront cash payment with a structure for the remaining money.

Timing matters when choosing this option. A structured settlement generally has to be arranged as part of the settlement agreement, before you receive the money. Once the agreement is signed and the annuity is purchased, the schedule usually can't be changed. That's why your lawyer should raise this option during negotiations, long before any settlement paperwork is final.

Do You Pay Taxes on Structured Settlement Payments?

Texas has no state income tax, so the main question is federal tax. Federal tax law generally excludes money received for personal physical injuries or physical sickness from taxable income. The law applies whether the money arrives as a lump sum or as periodic payments. As a result, structured payments for a physical injury are usually tax-free.

The tax picture can change when it comes to growth. If you take a lump sum and invest it, interest and investment gains are generally taxable. With a structured settlement, each payment generally stays tax-free as the annuity earns a return. Across many years, that difference can leave more money available for care and daily living.

Some parts of a settlement may still be taxed. Punitive damages aren't tax-free. Punitive damages are money meant to punish a wrongdoer rather than repay losses. Emotional distress on its own also doesn't count as a physical injury under the federal rule. A tax professional can review how your settlement is divided before you sign.

How Does a Lump Sum Compare to a Structured Settlement?

Both options can make sense, depending on your injuries, your bills, and your plans. A lump sum puts the full amount in your hands right away. A structured settlement spreads it out on a fixed schedule. Here's how the two choices compare on the issues that often matter most.

Issue	Lump Sum	Structured Settlement
Access to money	All at once, right away	Paid on a set schedule
Flexibility	Use it however you choose	Schedule is usually locked once set

Issue	Lump Sum	Structured Settlement
Risk of running out	Depends on spending and investing	Payments continue as scheduled
Taxes on growth	Investment earnings are generally taxable	Payments generally stay tax-free
Inflation	Can be invested to try to keep pace	Fixed payments may lose buying power
Often a good fit for	Large debts or short-term needs	Long-term medical care and lost income

A lump sum often works well when large debts are due right away. It can also help when someone has a shorter life expectancy or wants to buy a home outright. The tradeoff is that the money has to be managed wisely for years. Poor investments, pressure from others, or simple overspending can drain it faster than expected.

A structured settlement tends to fit cases with long-term needs. Someone who will need care for decades may value knowing a check will arrive on schedule. Many families choose a blend of both options. They take enough cash to clear immediate bills and urgent needs. Then they structure the rest to cover future care.

What Are the Benefits of Receiving Payments Over Time?

A structured settlement can be the right choice in many cases. However, injury victims and their families should carefully consider their options before agreeing to accept this type of settlement. Potential benefits include:

- **Steady Income for Life** – Payments can continue for as long as you live. That can help replace income you can no longer earn.
- **Money That Matches Future Needs** – Payments can be timed to arrive when surgeries, equipment replacements, or other major costs are expected.
- **Tax Advantages** – Structured payments for physical injuries generally remain tax-free under federal law.
- **Protection From Running Out** – A fixed schedule makes it harder to spend the money too quickly or lose it in risky investments.
- **Less Pressure From Others** – Friends, relatives, or salespeople may ask for money when they know a large check arrived. Spreading payments out can ease that pressure.

These benefits often matter most when an injury is permanent. Someone with paralysis, a brain injury, or an amputation may need care long after the case ends. A well-planned structure can

make sure money is there when those bills arrive. We help match the payment schedule to the lifetime costs of a catastrophic injury.

What Are the Drawbacks of a Structured Settlement?

The biggest drawback is limited flexibility. Once the annuity is purchased, you generally can't speed up payments or take extra money out. An unexpected medical bill, home repair, or family emergency may arrive at the wrong time. That's why many people keep some settlement money in cash. A cash cushion can cover emergencies and other needs that are hard to predict.

Inflation is another concern. A fixed monthly payment may buy far less in 20 years than it does today. Some annuities include yearly increases to help offset rising costs. Those increases usually mean smaller payments at first. Medical care can grow more expensive, so this choice deserves careful thought before you agree to any schedule.

Payments also depend on the financial strength of the life insurance company. If the company fails, a state guaranty association may step in. This backup fund protects policyholders of failed insurance companies. That protection is generally capped at $250,000 for each person receiving these payments. The cap is based on present value, meaning what future payments are worth today.

Can You Sell Structured Settlement Payments Later in Texas?

Yes. Texas law allows it, with strong safeguards to protect injured people. Companies that buy future payments often pay much less than those payments are worth over time. For that reason, Texas adopted the Structured Settlement Protection Act. The law requires a court to approve any sale in advance.

The judge must find that the sale is in your best interest. The court must weigh the welfare and support of your dependents. The buyer must also urge you to get independent advice. That warning must be in writing. You must either get the advice or knowingly waive it (formally decline it) in writing. A sale can leave a person without future income.

Buyers must also make written disclosures. The buyer must provide a disclosure statement at least three days before you sign. It must show the payments being sold, their total amount, and their discounted present value. That figure shows what those future payments are worth today. Talk with your lawyer before you sign anything.

What Happens When a Child Receives a Structured Settlement in Texas?

Settlements for injured children receive extra oversight in Texas. Courts typically review and approve these settlements because a child can't protect his or her own interests. A court may approve a structured settlement with periodic payments for a minor. A minor is anyone under 18. The payments must be funded by a U.S. government-backed investment or a qualifying annuity.

Texas law also sets standards for the annuity company. The company must be licensed to write annuities in Texas. It must also hold at least $1 million in capital and surplus. Capital and surplus is the money a company has beyond what it owes. The court must approve the company and can add requirements to make sure payments are funded.

Structured payments often fit children well. A child may need care for decades, and payments can be timed for college, adulthood, or future surgeries. Spreading the money out can also protect it until the child is old enough to manage it. Parents should work with a lawyer to build a schedule that serves the child for years to come.

What Should You Consider Before Agreeing to Long-Term Payments?

A structured settlement is a long-term commitment that usually can't be undone. Before you agree, take a close look at your medical needs, your finances, and your family's future. Key issues to review include:

- **Your Future Medical Needs** – A life care plan estimates the medical care you'll need and what it will cost. It can also capture the future costs of a spinal cord injury or other permanent harm.
- **Expert Projections** – Expert witnesses such as economists can help put long-term care costs into numbers.
- **Immediate Bills and Liens** – Medical liens are legal claims on your settlement for unpaid medical bills. These liens and other debts may need to be paid right away.
- **Government Benefits** – Supplemental Security Income (SSI) has strict limits on savings and other assets. Some trusts don't count toward those limits, so planning ahead can help protect eligibility.
- **Inflation Protection** – Ask whether payments can increase each year to keep pace with rising costs.
- **Payments After Death** – Some structures guarantee payments for a set number of years, so a spouse or child can receive what remains.

Each of these choices can affect your security for decades. A schedule that looks good on paper may fall short if it ignores future surgeries or rising costs. We work with financial and medical professionals to test the plan against your real needs. Taking that time before you sign can help protect you and your loved ones.

How Can a Houston Personal Injury Lawyer Help You Decide How to Receive Your Settlement?

Deciding what type of settlement to accept in a Texas personal injury case can be as complicated as finalizing one. Tax rules, government benefits, liens, and annuity terms can all affect how far the money will go. A choice made in a hurry can leave you short of funds years later. That's why these decisions deserve careful review before anything is signed.

Our attorneys plan for your future. We fight for compensation that reflects the care you'll need. We gather medical evidence and work with qualified professionals to project the cost of long-term care. We can help you weigh a lump sum, a structured settlement, a blend of both, or even whether to file a personal injury lawsuit. Our goal is to resolve your case in a way that can support you for years to come.

If you sustained a serious injury due to someone else's reckless or negligent behavior, contact us for a free consultation to learn more about your options. If you can't come to us, we can come to you. Our case results include multimillion-dollar recoveries for injured Texans. We handle these cases on a contingency fee basis, so you owe no attorney fees unless we recover compensation for you.