

Sudden Fortune, Fame and the Dire Need for Financial Advice: Professional Athletes

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“Athletes from the nation’s three biggest and most profitable leagues – the NBA, the NFL, and the MLB – are suffering from a financial pandemic.”

*Pablo S. Torre
Sports Illustrated*

Introduction

ESPN’s documentary series *30 for 30*, included an episode appropriately titled *Broke*, which delved into the theme of professional athletes and money. More specifically, the documentary, directed by Billy Corben, examined the overwhelmingly common occurrence of pro athletes suddenly realizing a vast fortune and subsequently losing everything. Sometimes this occurs a few years following retirement and other times it’s merely a matter of months after the signing bonus check clears. Some of the highest paid athletes in the world are declaring bankruptcy; according to Sports Illustrated, 78% of former NFL players have gone bankrupt or are under financial stress within two years of ending their professional careers and 60% of NBA players are broke within five years of retiring from the game.

Evander Holyfield, four-time Heavyweight Champion (\$250 million¹); Darren McCarty, NHL (\$10 million*); John Arne Riise, Premier League (\$20+ million*); Scottie Pippen, NBA (\$120 million*); and Marion Jones, Olympic gold medalist (\$7 million/year*) share several attributes—they are all world renowned, wildly successful professional athletes, they have earned millions of dollars over their lifetime, and each and every athlete listed has declared bankruptcy. This is a just a small sample of professional athletes who have received large and unexpected pools of money and found themselves to be unprepared, both financially and emotionally, to effectively navigate their new reality.

To successfully work with professional athletes, advisors must gain a deep understanding of the major life transitions the young athlete is experiencing. Building a trusting partnership-like relationship with the client is a necessity. Professional athletes need to be financially educated and be actively involved with the creation of a realistic plan to ensure their current and future financial security. It is clear that there is a desperate need in the market for financial advisors to help young professional athletes avoid financial distress. By using a slightly tailored approach, this market can be reached.

¹ 25 Rich Athletes Who Went Broke, www.businesspundit.com. *Estimated earnings/net worth at one period of time.

Not your Typical High Net Worth Clients

Despite the popular illusions that accompany the rich and famous lifestyle, the reality is often somewhat less glamorous. The transition into wealth can be a difficult adjustment for anyone, but for professional athletes this can prove to be even more challenging. Athletes face a unique set of challenges. Approximately 86% of college athletes live below the poverty line² and those that go on to become professional athletes are often selected during their college careers or drafted immediately after graduation. As a result these young athletes are deprived of the opportunity to live as independent young adults, and assume the responsibility that comes with being a relatively anonymous, non-professional athlete.

Most fresh-faced professional athletes have never had the responsibility of paying taxes and handling bills, not to mention the ability to buy houses and cars for their families and friends. The lack of financial responsibility, accountability and independence accompanied by sudden fortune and fame can be a recipe for disaster. Some common issues faced by professional athletes that can lead to poor decision making and serious financial downfalls are as follows:

- **Absence or Lack of a Sound Financial Plan:** When the money, power and fame suddenly appear, it can be difficult to imagine what life will be like after the limelight fades.
- **Not Living Within Means:** Exhibited by an extravagant lifestyle, poor spending habits, savings are nonexistent.
- **Overly Generous:** Inability to say no to family, friends and 'old friends' that surface, asking for financial assistance.
- **Inability to Manage Liabilities:** Focusing solely on assets while neglecting liabilities.
- **Impractical or Absent Spending Policy:** Without guidelines, frivolous spending habits can quickly destroy earnings that are meant to last a lifetime.
- **Poor Tax Planning:** With considerable wealth comes considerable taxes. Those who experience sudden substantial wealth must consider the tax implications. Failure to plan may lead to less after-tax wealth, IRS troubles, and tax-inefficient investment strategies.
- **Shor Sightedness:** Acting as if the money will continue to flow forever without a plan for the future.
- **Damaged Relationships:** May become isolated due to the envy of friends and acquaintances, and distrust new people entering their lives.

Longevity

The average age of retirement for Americans in 2016 was 63, and the trend seems to be that the average retirement age will continue to increase in the years ahead, as more non-retirees expect to delay retirement past age 65³. Unlike a typical career path that generally lasts 30+ years, professional athletes' careers are akin to a rapidly depreciating asset. In fact, the average MLB career is 5.6 years⁴, NHL players can expect a career of 5.5 years⁵, a typical NBA career lasts only

² <http://www.sportingnews.com/ncaa-football/story/2013-01-15/student-athletes-poverty-paid-scholarships-ncpa-texas-duke>

³ <http://smartasset.com/retirement/average-retirement-age-in-every-state>

⁴ University of Colorado: <http://www.sciencedaily.com/releases/2007/07/070709131254.htm>

⁵ <http://www.quanthockey.com/Distributions/CareerLengthSeasons.php>

4.8 years⁶ and the NFL average career span is a meager 3.5 years⁷. With such a tremendously small earnings window, professional athletes must have a solid financial plan to maintain their lifestyles throughout their extensive retirement. This presents a significant opportunity for financial advisors.

Client Discovery is Key

A strong client discovery methodology is important in any client-advisor relationship, however, the process is even more vital for professional athletes. Many goals of a powerful client discovery interview are uniform across all clients—establishing trust, differentiating the advisor and establishing credibility, and the list goes on. However, when it comes to the professional athlete client discovery process, advisors need to dig deeper. As is demonstrated with the astonishingly high bankruptcy rates, often these athletes have not set realistic lifestyle expectations and financial goals for the future and are in desperate need of planning and guidance.

You must get to know the client beyond the facts and figures to surface important issues. What are their feelings toward money? What was their financial situation prior to going pro? Do they have a retirement plan? Are they financially supporting friends or family members? Is there a backup plan if their career gets cut short? The rich and famous are targets for those looking to earning a quick buck—are they aware of this and how are they protecting themselves?

Client discovery and the interview process are essential in any client-advisor relationship, but it takes more effort to uncover some of the emotional and financial issues that are unique to windfall recipients such as professional athletes. Your investment of time and energy in engaging your clients in a discussion may save them from their potentially grim financial fate, while paying you dividends in the years ahead in terms of the relationship you build with your client. Everyone must manage their lifestyles in a practical way and invest their wealth wisely, and professional athletes are no different.

Your Role as a Professional Athlete's Financial Advisor

Trust—An Essential Trait

One of the biggest mistakes that an athlete can make is using an unqualified friend or family member to manage their money. This is a fairly common occurrence simply because the young athletes do not know any better and are unsure of who they can trust. Often, those who are chosen to manage their money and dictate their financial future are incompetent, inexperienced, make irrational decisions based on emotions and may be corrupt. Any one of these factors can easily result in poor money management and planning decisions, which more often than not leaves these former millionaires penniless.

As in any client-advisor relationship, trust is a key ingredient, however this attribute is especially crucial for professional athletes. As mentioned above, many pro athletes rely on family and friends with no experience for business and financial advice, because they feel they are trustworthy. Furthermore, it's hard to open the paper or tune into the radio without hearing horror stories such as, *'Financial Advisor Rubin was banned from dealing with the securities industry, partly for the role he played in convincing 31 NFL players to invest in an Alabama casino.'*

⁶ TIME magazine and sourced from the NBA <http://www.time.com/time/magazine/article/0,9171,990035,00.html>

⁷ NFL Players Association at <http://www.nflplayers.com/user/template.aspx?fmid=181&lmid=349&pid=0&type=1#a3>

The project went bankrupt costing the group an estimated \$40 million,⁸ or ‘Ray Lewis, Frank Gore among group of 16 NFL players suing bank for nearly \$53M.’⁹

Money and fame seem to awaken and attract the most deceitful and deceptive individuals, making trust a precious commodity among those in the limelight. Money is one of the most personal and intimate matters, and without establishing a relationship of trust, you aren’t likely to get near it. Earning trust can be a long and tedious journey, but once a constructive relationship is established, professional athletes can be dream clients; they are famous, therefore by association you and your firm will gain exposure, they have a lot of money and generally they need a lot of help.

Education

Professional athletes have varying levels of sophistication in terms of financial literacy often with limited investment experience. As their advisor, it is imperative that you help them understand their finances and investment options. Simulate their financial future if they continue their current lifestyle and spending habits, and demonstrate how it could change if they adjust their behaviors. Without the presence of financial literacy and education, creating a financial plan will be futile. To achieve a long-term goal and adhere to guidelines, it is imperative to understand the method behind the madness.

Planning and Budgeting

Manage Expectations. Set Goals. Plan Accordingly. Stay on Track.

This seems simple enough, but this is indeed a complex, time-consuming and ongoing process. For pro sports players, meticulous budgeting is a vital part of their overall financial planning process, however financial distress is often the result of poor budgeting. The fundamental goal is to help these clients get the most out of the money they work so hard to attain. Below are a few examples of strategies to help meet financial goals:

- Determine the desired income stream once his/her playing career ended
- Keep records of how money is spent
- Create a cash flow plan
- Adjust spending if needed
- Create an itemized monthly budget report to monitor spending

Successful planning and budgeting are the keys to achieving financial stability as well as a happy, financially independent life.

Act as the Gatekeeper

The instant an athlete turns pro, they become a target for those in search of a quick buck. As your client’s financial advisor, you have the ability to act as ‘insulation’ between your client and his cousin asking for that \$50K loan into their startup business or her brother asking for a \$20K loan for a down payment on a house. You can determine what loans are excessive, provide due diligence for potential investments, or simply be their excuse for being unable to hand out their

⁸ Report: Terrell Owens suing former agent Rosenhaus for \$6.5 million, CBS Sports.

⁹ Ray Lewis, Frank Gore among group of 16 NFL players suing bank for nearly \$53M, Yahoo Sports.

hard-earned cash. Acting as a buffer can help avoid uncomfortable situations with your client's family and friends that may lead to money exchanging hands out of guilt or pressure.

Planning Strategies for Life During and After Sports

Planning is paramount, and improper execution of this process is the ultimate downfall of most pro athletes who find themselves in financial distress. Your essential duty is to help your client convert large earnings over a very short period of time into a lifetime of financial security. Short-term objectives and long-term goals must be clearly defined. There is a great opportunity for advisors to work with professional athletes on improving their knowledge of retirement issues and creating a successful retirement plan. Expectations must be managed and lifestyles kept sustainable. It is only then that you and your client can work together to develop suitable strategies for their future. Some financial planning tools and strategies include:

- Keep receipts when travelling for write-offs
- Contribute to an IRA or Roth IRA
- Evaluate buying vs. renting
- Take advantage of mortgage interest tax deductions and understand the limitations
- Determine the most efficient location of assets: tax deferred, tax deductible accounts
- Establish family offices
- Undergo intricate retirement planning
- Create trusts and focus on estate planning
- Consider if a guaranteed income investment such as a deferred annuity is appropriate

The financial planning process for professional athletes should specifically address issues that will continue to be relevant as they age and are no longer employed—in particular, the need for a guaranteed lifetime income stream.

Conclusion

Often young professional athletes are tremendously unprepared for their freshly minted fortune for numerous reasons, many of which were addressed in this paper. Those advisors who can successfully develop an approach that meets the needs and concerns of professional athletes will enjoy immense opportunities for building a meaningful presence within this small, but nevertheless, important market. The key to building lasting relationships with the professional athlete is to establish a strong connection that promotes and facilitates communication and trust, enabling the development of a resilient financial plan.

A successful financial advisor will understand the professional athlete's unique situation, help define their goals and help build a clear-cut plan that works for the athlete and their particular circumstances. Advisors must learn to tailor their services to the unique situation of each potential client. Customized, integrated strategies can help these specific clients avoid the dismal statistics when it comes to post-career financial security. Too many athletes have plummeted from sudden fortune and fame to financial ruin. The need for professional advice in this niche market is undeniable.

Resources

Broke, ESPN Films: 30 for 30, Billy Corben

CBS Sports

FinancialPlanning.com

GALLUP Economy

Investment News

Yahoo Sports

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222144-ADV-Y-07/18

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