

A Game Plan for Working with Professional Athletes

by Eric J. Reinhold, CFP

One area of specialty for financial planning professionals is the professional athlete. This article highlights unique planning issues to consider when working with professional athletes, and discusses how financial advisors can market to this niche.

Mr. Reinhold is the regional vice president of Academy Financial Incorporated's branch office in Orlando, Florida. He can be contacted at academyfinancial@mindspring.com or (407) 667-4825.

Having worked with professional athletes across the sports spectrum, from football and baseball to golf, NASCAR and soccer, I can say that all have two things in common from a planning perspective. The first is a lot of time (both in meetings and on the phone) and the second is attention to detail (in research and abnormal issues).

Unique Issues

There are unique planning issues to consider when working with professional athletes. Consider these differences. The average individual...

- Will have lifetime earnings between \$1.5 million and \$3 million.
- Will work 35 to 45 years.
- Will enjoy peak earnings during the five years just prior to retirement.
- Will allow circumstances to determine his or her lifestyle.

The average professional athlete...

- Will enjoy lifetime earnings between \$5 million and \$25 million.
- Will work for 35 to 45 years; however, his or her career in professional sports will only last 7 to 12 years and will be over before he or she reaches age 40.
- Will enjoy peak earnings before age 35. In fact, they will likely earn 70 percent to 90 percent of their lifetime earnings before age 35.
- Will also allow circumstances to determine lifestyle (only to discover the lifestyle adopted as an athlete cannot be sustained once the professional sports career is over—the resulting “adjustments” are often dramatic and usually humbling).

Let's begin by taking a walk through the basic planning model.

Net worth. Net worth can vary significantly depending upon whether you are working with a high-profile young rookie who has a \$10 million signing bonus with visions of new cars and houses, or an athlete in the twilight of his or her career who needs to preserve every last dollar.

Cash flow. Many athletes are paid only when in season. For instance, in the NFL (National Football League), players are paid signing and roster bonuses and earn their salary over a 17-week period in-season. This creates unique cash flow issues for monthly income needs in the off-season. One way to solve this problem is by setting aside the necessary off-season monthly income in a brokerage money market account.

One of the biggest drains on cash flow for the athlete is the house-buying decision. I have seen many athletes buy multi-million dollar houses in one city, only to be traded to another team and take a big loss on the sale. My advice for rookies is to rent something nice and wait for a season or two until they determine where they really want to live in the off-season and potentially after their career. In addition, most athletes don't consider what the cost will be to maintain a very large house, especially down the road when their playing days are over and the big salaries are long gone.

Budget. You've read about the multi-million dollar athlete who somehow found himself broke following his career. I have always taken the approach of counseling my clients on the benefits of having a "rough" monthly budget. One way to do this without being confining is to work out a generous monthly budget, then have the athlete write a check once a month from a money market account to a local checking account in that amount. If the money runs out before the end of the month, then my client knows he or she is not sticking to a budget. This provides self-accountability without being complex or a burden on the athlete's time.

Taxes. A unique issue with athletes is state income tax. You may be working with an athlete who resides in Florida (a non-income tax state); however, the athlete is required to pay taxes on income earned in other states. This requires keeping track of the athlete's season schedule and knowing which states' estimated taxes should be paid. It also will require assisting the athlete in filing in numerous states. This is a very important part of an athlete's finances; therefore, if you want to be in the market effectively, you either need to have in-house tax preparation or a close relationship with a CPA. A critical area on which to follow up is in which state residency will be established (where they are in the off-season or during the season) and how you go about establishing that residency (that is, driver's license, mailing address, bank). Additionally, you need to determine whether to set up a separate corporation for endorsement income.

Insurance. There are a number of insurance issues that are critical for professional athletes. The first is the decision of whether to purchase disability insurance. For a rookie, this is typically a good idea during the first three years while they are building their net worth. Usually the only guarantees in professional sports are signing bonuses. The athlete may sign a five-year, \$35 million contract, but if he is injured in the first season and cut, that potential income is meaningless.

Understandably, there are only a handful of companies that specialize in disability risk for athletes. In addition, it is important to get this underwritten prior to pre-season training, because once there is an injury, an insurance company will exclude that area for future disability claims.

A second insurance policy that is important to secure immediately is for personal liability. An umbrella policy is cost-effective and can cover a number of potential lawsuits that a deep-pocketed, high-profile athlete might incur.

Third, a good permanent life insurance policy can provide a solid foundation and flexibility for the future. I typically recommend a five- to seven-year pay policy in which the athlete will have the resources to fund the policy before the end of his career. This policy can provide a secondary form of forced savings for the athlete. Unfortunately, some athletes have received bad investment advice early on, causing their net worth to suffer later in their careers. However, they still had a house fully paid for and cash value in a life insurance policy.

A fourth insurance area, which you should not assume has been addressed, is auto insurance. I had an athlete inform me of a purchase of a \$125,000 automobile and, when questioned if he had secured auto insurance, responded no. A key point here is not only the insurance, but in which state the tag, title and registration are issued.

Investments. Preservation of wealth is the key here. I'm sure you have read the horror stories of athletes being swindled or put into risky tax scheme investments. Athletes have a short window of opportunity to earn the high income they do. It is imperative that a well-thought-out plan is put together that addresses income needs after sports—retirement, college funding for children and lifestyle issues—in a conservative manner.

After all of these issues are addressed, more aggressive investments may then be considered. As with most of your clientele, investment decisions are often driven by fear and greed. Athletes may hear about great returns their teammates are reportedly getting (somehow the big losses never come up) and then turn to you to get them the same thing. Our job, as planners, is to continually educate the athlete client on long-term investment principles and the need for diversification to accomplish his or her goals.

Retirement. The first and most difficult course of action is obtaining the latest pension plan information from organizations such as the NFL, NBA (National Basketball Association) and MLB (Major League Baseball). The second course of action is determining how best to fund retirement from a short career. I typically break the athlete's

income needs into three stages: ten years following the end of an athlete's career (for example, age 35 to age 45), age 46 to 59 1/2, and 60-plus. In general, after doing this, I would fund the first stage with laddered municipal bonds based on his or her state of residency. The bonds would allow time for the second stage, tax-efficient investments, to grow. For the third stage I would use a combination of his or her 401(k) and an annuity.

Estate. Obviously, with a large estate, there are going to be estate planning issues. For single athletes who see themselves as invincible, just getting a basic will signed can be a challenge. For married athletes with children, more advanced planning techniques including A-B trusts, ILITs (irrevocable life insurance trusts) and QTIPs (qualified terminable interest property) are necessary. Charitable giving is another area that is important to cover with the athlete, not only with regard to death, but for a current tax deduction. This includes analyzing whether it is cost-effective to set up a private foundation.

Other Issues

Other details are involved in the planning process for athletes. Because their time is limited, many athletes rely on their planner to take care of things most people typically do themselves. This could include paying bills, obtaining a credit card, securing a mortgage loan for a house, assisting in the purchase of a car and forwarding mail. I have even differentiated myself from other advisors by helping in the transition from professional sports to a second career. This builds long-term loyalty, while many people jump off the athlete's coattails when the big money dries up.

During the season, it is difficult to get in touch with your client. Athletes typically have only one day during the week to take care of personal issues. A few of my clients have had a laptop for e-mail, which has been terrific. For others, a cell phone has assisted in the process. Be prepared for plenty of overnight mail to hotels while they are on the road and phone calls not returned. There are a lot of people vying for your client's time besides the team, family and friends.

And just when you think things are running smoothly, the unexpected will occur. Your client will be traded to a new team in a different city, or cut altogether.

All of these factors need to be considered when determining what fee you are going to charge to work with the athlete. There are many advisors who will do the "planning for free" and be paid on the products recommended. In taking over an athlete's financial situation where this has been done, I have found that they were not satisfied with the level of service provided and ultimately questioned the objectivity of the advisor. I would recommend charging a fee based upon estimated time and complexity involved in the situation due to the many services that need to be provided, which would otherwise not be paid for. In addition, some of the most appropriate recommendations, like laddered municipal bonds, may be assets for which you cannot be compensated through your broker/dealer.

Marketing to Athletes

Agents typically charge anywhere from three to five percent of the athlete's income for their services. In some cases this includes their version of financial planning and, in many cases, they outsource it to others. Typically you will find the very large or well-known agents trying to keep all aspects of their clients' finances in-house. You may have seen the movie *Jerry Maguire*. It's a competitive business and a lot of people are jostling for a limited number of athletes. The smaller agencies or single-agent companies often charge a lower fee to be more competitive with the larger agencies and may outsource the financial planning for a number of reasons (lack of time, interest or competency; more objective; or to offer all the services the larger agencies offer).

From my experience, there are three successful ways in which to market to professional athletes. I would preface this by advising not to devote a lot of time to any of these, but to maintain your current practice while thinking through and developing some of these ideas over the course of a year or more.

Building relationships with agents. This is by far the most effective way to work with athletes. The agent is the first person the athlete employs in his or her career and is typically the most trusted. The agent drives most of the decisions. The best approach to take with the agent is how he can benefit from the relationship through the services you provide. You will be taking care of issues that are going to benefit his client and that take time away from the agent's primary function. You will be providing a service, which the smaller agent can promote, to his potential clients

(such as tax services, investment management, estate and retirement planning and cash flow management).

It is rare that you will be able to refer a client to an agent, but you can reinforce to the athlete the excellent job his agent is doing for him. To begin, you may want to get a list of agents who are representing athletes of sports teams in your area. It isn't easy to get appointments with them, but it is far easier and more effective than trying to obtain a meeting directly with the athlete.

Friends and acquaintances. This option is hit or miss. You may have a friend or acquaintance from high school or college who made it in the big leagues. It is worth a shot to try arranging a meeting one-on-one to talk about the services you can provide. Since you are new in this particular niche, you may want to offer to discount the fee you will ultimately end up charging others as a way to get your feet wet. You also can use this as a potential springboard to talk with his or her agent and develop a relationship.

Work with an experienced planner. My start and experience in the professional athlete market began by working with a planner who had been in this niche for more than 15 years. You can find a planner in the business who is willing to take time to show you the ropes or better yet, if you have a friend or acquaintance who is a professional athlete (mentioned above), invite this experienced planner in on the case. You will learn a great deal more than I have mentioned in this article and potentially begin relationships upon which to build.

Summary

The professional athlete market is a tough one to break into. In many ways it can be frustrating to obtain information from clients, let alone just get in contact with them. There are endless details to think about and take care of. On the positive side, it is challenging and stimulating as a professional to deal with these cases. As a sports fan, it can be rewarding to be involved in the careers of athletes and have the opportunity to see the individual outside of the public eye. As a financial planning professional, with your expertise and services, you can have a positive and significant impact on an athlete's life.