Opinion: How to help professional athletes make their money last when they retire
By Sharon Klein
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Setting professional athletes up for success off the playing field

Very few athletes have the career longevity of Tom Brady. MIKE EHRMANN/GETTY IMAGES

The annual National Football League (NFL) draft was held in late April and early May, which immediately transformed the careers of 254 college football players — as well as their financial futures. While the event was a cause for celebration, the truth is that many professional football players, and athletes in general, don't enjoy the long-term financial stability of their dreams.

While stars like Tom Brady, Aaron Rodgers, and Patrick Mahomes can earn hundreds of millions of dollars across a 10-plus-year career, most NFL players will garner around $2.7 million in career earnings with an average playing career of just 2.5 years. Imagine retiring at 24 years old and wondering how to preserve and grow a seven-figure lump sum for you and your family over the next 50+ years.

With most athletes hitting their peak earning years in their 20s (or 30s if they are fortunate), they face daunting financial challenges. A 2015 study by the National Bureau of Economic Research found that 15.7 % of NFL players had gone bankrupt by 12 years into retirement, while the findings from a 2019 study in the Journal of Sport Behavior demonstrated that financial literacy and inexperience managing money were some of the issues impacting players trying to save, especially those early in their career. Becoming wealthy happens suddenly for many athletes — but for those who are unprepared, it can disappear just as quickly.

Finding the right type of financial guidance can mean the difference between athletes achieving their post-career goals and suffering devastating setbacks due to overspending or other poor habits.

For every player selected in the NFL draft — and thousands of athletes like them — here are some best practices for how they can work with a financial professional to help achieve financial stability and achieve their long-term goals off the field.

Financial awareness is essential

After an adviser meets with an athlete to set out his or her objectives, the next step usually involves building financial literacy. Too many promising young athletes neglect financial education or just haven't received solid financial advice in their youth. Knowing this, savvy advisers offer streamlined foundational literacy programs to stress the importance of money management, budgeting and other skills. They may also utilize financial projections to help clarify future scenarios and make them easily understandable.

Formulating a comprehensive financial plan for the athletes and their families typically includes the following considerations:

- Creating a diversified portfolio designed to potentially withstand fluctuations in the market and adapt to the athlete's changing needs over time

- Allocating assets and investments based on characteristics of different pools of assets. For example, an athlete's retirement assets will typically be invested for growth and long-term sustainability, as opposed to assets used for day-to-day living expenses, which might be invested to maintain liquidity

- Using detailed financial modeling to illustrate different expected scenarios with inflation assumptions. This can also help assess risk and test potential financial outcomes, especially throughout challenging market cycles. In addition, the adviser can project the potential sustainability of a given level of spending over time at various asset allocations and model the impact of large one-time purchases and other upcoming outlays

- Cash flow analysis that can illustrate how to balance current and future needs

- Creating a budget to manage the athlete's expenses and spending habits

Keep in mind it's also important to develop a plan using a collaborative approach from a cross-disciplinary team of an athlete's professional experts. These specialists can include an agent, wealth manager/trustee, estate attorney, matrimonial attorney, accountant and insurance consultant.

Playing defense by using trusts

Many experienced advisers know that the best-laid plans can be waylaid by bad actors and unexpected pitfalls. That's why it's vital to mitigate the risk of wealth being squandered by surprise events.

One such surprise event that can be financially devastating for an athlete is divorce. In counseling athletes, I suggest a personalized trust to protect them in the event of divorce.

In some jurisdictions like Delaware, it is possible to create a trust, remain a beneficiary of the trust and have the trust assets protected from creditors, as long as the athlete remains solvent after the trust is funded. Athletes can help preserve their financial security by transferring some portion of their personal assets to a Delaware Asset Protection Trust (DAPT), protect those assets from the claims of most creditors, including a spouse the athlete marries after creating the trust, while allowing the athlete to benefit from the trust assets. As long as the trust has a Delaware trustee, neither the athletes nor any of their heirs need to reside in Delaware to create a trust to safeguard their assets and their legacies.

To secure an athlete's assets, the following steps are typical:

- Transfer assets into the trust prior to signing a prenuptial agreement

- Disclose the existence of the trust in the prenuptial agreement, and make it clear it is walled off in the event of divorce

While an ex-spouse is perhaps the quintessential future creditor, a trust can also protect the athlete's assets from other potential creditors. A trust can be a helpful layer of protection against bad actors, including friends and family members.

Athletes typically need protection from a barrage of family and friends reaching out for support or investment ideas. While not every family member or friend has malicious intent, often the business opportunities they present don't account for the complex tax, legal and investment decisions that confront an athlete, and this can easily lead them astray.

Having a wealth adviser manage and oversee an athlete's assets, or better still, creating trusts with an institutional trustee (flexibly drafted trusts that are designed to adapt to changing family circumstances and tax laws, and where they can replace the trustee at any time), can create a buffer to shield the athlete from being preyed upon and avoid the pressure of direct family requests.

With a trust in place, the trustee can assume the "bad guy" role in conveying that the athlete's assets are committed and subject to trust, and not accessible. If an athlete decides to financially support family members, there is an option to allocate a set amount of funds and prevent a barrage of one-off requests.

Looking ahead

Athletes are making more money than ever. However, they can be financially vulnerable, potentially depriving them of a secure, long-term financial future. By creating a strong foundation of understanding and developing formidable financial barriers to protect athletes from bad or ill-informed actors, we can hopefully position more professional athletes to stay financially safe and leave their heirs an enduring legacy long after their playing days are over.

Sharon L. Klein is president of Family Wealth, Eastern Region, for Wilmington Trust, N.A. with over 25 years of experience in the wealth advisory arena. As president of Family Wealth in the Eastern U.S. Region, Sharon leads a team of professionals who provide planning, fiduciary, investment management, private banking, and family office expertise. As architect of Wilmington Trust's Versatile Athlete's Ultimate Legacy Trust (VAULT) solution, Sharon, who will be inducted into the Estate Planning Hall of Fame in 2021, has experience in providing advice that is customized for athletes to help them use their income to support them the rest of their lives, mitigate risk and create intergenerational wealth. She also heads Wilmington Trust's National Matrimonial/Divorce Advisory Practice, which provides guidance and

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