Why Do Athletes Go Broke?

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"[Professional athlete's name here] Goes Broke" is a headline seen far too often. As hard as it may seem to lose millions of dollars, it is not uncommon. In fact, the National Bureau of Economic Research found that nearly 16 percent of NFL players drafted between 1996 and 2003 declared bankruptcy within 12 years of retirement. Even more alarmingly, 60 percent of athletes find themselves in some type of financial stress only a few years after retiring from the league. Financial advisor, Don Padilla, goes as far as to say "78 percent of NFL players, 60 percent of NBA players, and a large percentage of MLB players file bankruptcy within five years of retirement."

Why does this happen to so many athletes? In the face of empirical data, countless horror stories, and a laundry list of professional athletes who have seen their riches wiped away from them, why has no one found a way to prevent athletes from going broke?

Where Does the Money Go?

Frivolous Consumption

Many professional athletes, along with an overwhelming percentage of our population, are too consumed with consumption. Sudden fortune can signal a greenlight to spend – and spend a lot – with no regard to budgeting for the offseason, let alone the rest of their lives.

As the elite competitors that they are, athletes commonly compete both on and off the field. When one spends $10,000 in one night, another one-ups them by spending $20,000. The desire to make others aware of their money can overshadow the need to preserve that money for when the checks stop rolling in.

Taxes

Taxes consume approximately 40% of any high earner's income. Navigating ever changing tax laws can be tricky, especially for athletes. Unlike the majority of Americans who only file taxes in the one state in which they reside and work, professional athletes are burdened with the "jock tax" that requires them to follow the tax codes of each individual state or country in which they compete. Depending on the tax rules of those states, this unique situation may require an athlete to file taxes in multiple jurisdictions. To complicate matters further, they must also consider the tax consequences from receiving royalties, endorsement contracts, and merchandising agreements which all require the assistance of a tax expert to ensure the IRS does not come knocking later on down the road.

Family Matters

Family matters represent a large portion of most every budget; however, there may be additional considerations for a professional athlete.

For many, especially those from low-income backgrounds, going pro means they are able to finally provide for their families. Often times the first thing athletes do with their money is buy a house for their mothers – a very noble and legitimate purchase. But sometimes the athletes feel as though they are indebted to many of their friends and family members who have been there throughout their journey to success, and this can weigh on an athlete psychologically. Requests turn into demands, relationships become adversarial, and athletes are made to feel that the only way to keep everyone happy is to comply. Tack on a spouse and/or children and the responsibilities grow even more.

While many professional athletes have successful marriages, it is estimated that between 60 and 80 percent will end in divorce. Property settlements, child support payments, and legal fees can quickly become a recipe for financial distress.

Financial Advisors

Many athletes who go broke have inexperienced, incompetent, and, in many cases, unethical financial advisors. Athletes with financial advisors who do not stress the importance of good spending habits or who choose not to step in as a mediator between the athletes and their family members will likely experience a very bad outcome.

With this role being most vital to an athlete's financial success, second only to the athlete, it seems obvious that the selection of a financial advisor be taken carefully and seriously. Unfortunately, that is often not the case. When asked how an athlete chose their financial advisor, the following responses are commonly heard: "I don't have a financial advisor." "I wanted someone I trusted so I went with someone I knew." "They contacted me and I checked their references and they seemed to be good." "My teammate or friend referred me to his financial advisor."

While all of these reasons may seem appropriate, they all raise red flags. Not having a financial advisor leaves too much room for a young athlete whose main focus is his sport to lose it all without even realizing it. In many cases, too much trust is placed upon financial advisors – who are often friends or relatives – which can lead to undesired consequences. Another important reality is that financial advisors do have incentives to win business. If they contact an athlete and give references, chances are, they are giving references of people they know will speak highly of them. The biggest red flag of all – financial advisors referred by another who may not be qualified to adequately assess the advisor's competence and capabilities. Although coordination is important, a level of independence and proper checks and balances among your agent, advisors, accountants, and attorneys are essential.

Even choosing a National Football League Players Association ("NFLPA")-sponsored financial advisor may not be comprehensive enough. The NFLPA has the following requirements for listed financial advisors:

> "All financial advisors must have appropriate professional qualifications to be eligible to participate and pass a background investigation. The eligibility requirements for advisors include, but are not limited, to the following:
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> 1. Bachelor's degree from an accredited university.
> 2. Minimum of eight (8) years of licensed experience (qualifying licenses include FINRA series licenses, Attorney, CPA or an insurance license).
> 3. Minimum of $4 million of insurance coverage, through professional liability, errors & omissions or a fidelity bond.
> 4. No civil, criminal or regulatory history related to fraud.
> 5. No pending customer complaints or litigation at the time of application.
> 6. Must not maintain custody of player funds unless deemed a qualified custodian."

While it is reassuring that the NFLPA has some criteria for financial advisors, more due diligence on their part would prove valuable to athletes who put their sole faith in this system. Unfortunately, according to investment fraud attorney, Chase Carlson, "from [the NFLPA's financial advisor program's inception in 2002], professional athletes have lost roughly $150 million investing with financial advisors registered in the program" with infractions as recent as mid-2016 involving a financial advisor who claimed to be a CPA but, in fact, was not. Hard working professional athletes deserve better.

The Solution

What athletes need is a financial advisor who is in the business of doing what is best for their clients. Period.

With over a million people claiming to be financial advisors (i.e. securities license holders, attorneys, CPAs, insurance license holders) in the United States, finding the right one can be a challenge. However, by setting strict criteria and asking the right questions, an athlete can determine who is and, more importantly, who is not qualified to handle their financial affairs.

The selection process should be centered on verified character, credentials, and accountability. Assessing the character and integrity of an advisor is the most difficult task of all. Everyone, at first glance, appears to have their clients' best interest at heart. But history has shown that that is not always the case. Finding an advisor with a good reputation with a solid firm or team behind them should be a critical starting point in the vetting process.

Within that team, there should be a level of expertise surrounding the financial issues that athletes face. Simply having the title 'financial advisor' does not mean an individual has the credentials, experience, or specialized expertise required to be entrusted with an athlete's hard earned wealth. By obtaining certain designations within the financial industry such as Chartered Financial Analyst (CFA), Certified Public Accountant (CPA), or Certified Financial Planner (CFP), an advisor demonstrates the ability to successfully complete the rigorous requirements that precede those recognitions. With continuing educational and ethical requirements, they are expected to be up-to-date on the latest laws, regulations, and standards in their fields. Professionals who carry these highly respected titles are also governed by the fiduciary standard of care, which means they must act in the best interest of their clients, even if it is at odds with the advisors' interests.

Lastly, athletes need financial advisors who will be held accountable for their actions. Advisors with the aforementioned designations are governed by strict regulatory bodies that are constantly evaluating those individuals. If an advisor happens to be associated with a financial institution such as a bank, additional oversight, including frequent audits, may be required. These regulators also have information on its members so it is vital to check a potential advisor's record against these resources prior to engaging in any business relationship.

We Can Help

At Truxton Trust, we hold ourselves to the fiduciary standard of care, which means acting in our clients' best interest at all times. Truxton Trust is subject to considerable oversight at both state and federal levels, in addition to annual internal and external audits.

Truxton Trust's highly-credentialed and diverse team of wealth management professionals takes a consultative and comprehensive approach to develop highly-personalized strategies to achieve client objectives. Each and every one of Truxton Trust's employees is dedicated to our mission statement:

To do the right thing every day, putting our clients' interests first, with distinctive, comprehensive financial solutions that protect and promote client prosperity and quality of life.

We value quality of relationships versus quantity of transactions, making sure to understand what is most important to each client – personal service, discretion, financial security, growth opportunities, or tools for securing his or her financial legacy. Our proactive approach to communication provides safety, stability, longevity, and comfort to our clients.

Our team is comprised of Chartered Financial Analysts (CFAs), Certified Financial Planners (CFPs), Certified Public Accountants (CPAs), Certified Trust and Financial Advisors (CTFAs), Doctors of Jurisprudence (JDs), licensed insurance agents, and registered investment representatives.

We customize solutions using a consultative approach based on each client's unique situation. Whether it is asset management, retirement planning, trust administration, estate settlement, life insurance or family office services, it is the one-of-a-kind, incalculable service we provide which clients often value most.

Currently, we have approximately $1 billion in assets under management serving over 170 families in 19 states. With 20 wealth management professionals, we are able to assist our clients in meeting their personal and financial goals through comprehensive services focused on individual preferences and needs.

All of this can be overwhelming and intimidating. Our goal is to first teach athletes the fundamentals enabling them to make prudent decisions for themselves, and then assist them in both wealth accumulation and preservation. Partnering with a trusted financial advisor like Truxton Trust can limit, if not end, the headline "[Professional Athlete] Goes Broke." ■

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