Going the Distance: Financial Tips for Professional Athletes

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The NFL Draft is set for April 2022, with the NBA Draft following shortly thereafter in June 2022. For most athletes fortunate enough to be selected, it will mark their first encounter with substantial wealth.

Unfortunately, statistics suggest that despite their relatively high earnings, up to 78% of NFL players go bankrupt or fall into severe financial hardship within just two years of retirement — for NBA players, 60% within five years.

Here are three things that can help professional athletes defy these statistics:

1

Treat the First Contract Like It's the Last Contract

The average worker spends about 40 years in their respective careers, retiring between the ages of 62 and 65. With a life expectancy of at least age 80, part of their earnings is allocated to savings to cover living expenses during retirement.

Professional athletes, on the other hand, have a much shorter earnings lifespan than 40 years — on average, 4.8 years for an NBA player and 3.3 years for an NFL player — which means a much longer retirement. To prevent a significant drop in lifestyle during retirement or, worse, financial hardship, create a lifestyle that can be sustained on current assets, not expected future assets, and plan for retirement as if the current contract is the last contract.

2

Find a Trusted Advisor

In most cases, a sports agent introduces a professional athlete to a financial advisor. It is incumbent on the professional athlete to ensure that the advisor is a good fit and that a mutually beneficial relationship is being forged.

Here are some questions that a trusted advisor can help solve:

- Do I have enough assets to support my current lifestyle after I retire?
- I've been presented with an investment opportunity — is this a good additional investment for my portfolio?
- How do I objectively hold myself accountable for my financial well-being?
- What is the best way to support my loved ones financially?
- How do I efficiently pass the wealth that I've created to future generations?

Additionally, look for significant experience or credentials, or "letters" after the advisor's name, that signify expertise and dedication to the profession. Advisors holding certifications have usually completed hours of coursework, passed comprehensive exams and built a respected level of industry experience.

Here are three of the most common credentials in personal finance:

Certified Financial Planner (CFP®)

Certified Public Accountant (CPA)

Chartered Financial Analyst (CFA)

3

Diversify Investments

Advisors diversify client portfolios across various financial instruments, industries, and categories as a technique to reduce overall risk. Said differently, "don't put all of your eggs in the same basket".

Imagine having a portfolio comprising all airline stocks. If the airlines announce a shortage in airline pilots and crewmembers, causing an indefinite cancellation of flights across the country, share prices of airline stocks will drop, and so will your entire portfolio.

However, if you diversified your portfolio and held additional investments in industries that are not correlated with the airline industry, only part of your assets would be affected.

Moreover, understanding the importance of diversification should dispel contrarian thinking like, “I only invest in real estate, not the stock market.” Once an acceptable level of risk is established that provides comfort and opportunity for asset growth, several asset classes (real estate, stocks, bonds, cash, etc.) can be constructed in unison to accomplish the end goal.

Wes Hedrick, CFP®, has been simplifying the complexities that come with being a high-earning professional athlete for years. If you are interested in a consultation, his contact information is below.