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Financial Planning for Athletes: 6 Rules for Success

Working with sports stars can be prestigious, even glamorous -- and is often a highly sought after market niche for financial advisors and wealth managers.

BY CHARLES PAIKERT

Advisors got another glimpse into the field last week with the announcement that platform powerhouse Dynasty Financial Partners had signed on Octagon Financial Services, the Mclean, Va.-based RIA with an impressive client roster of professional athletes. (Among them: NBA star Chris Paul of the Los Angeles Clippers and Olympic swimming champion Michael Phelps.)

But professional athletes can also present advisors with a minefield of challenges -- limited earning careers, high-flying lifestyles, tax challenges and a frequent lack of familiarity with basic financial principles.

How can advisors who are considering working with professional athletes navigate this sensitive terrain? Financial Planning asked several prominent advisors with established practices in the field to share some of their successful strategies:

EDUCATION

Educating athletes about finances is one of the biggest challenges facing advisors. Octagon starts by laying out a monthly spending budget for their clients over the course of the year.

"We set goals for saving and spending, and we challenge our clients to meet them," said Jan Plewes, Octagon's managing director. "Athletes are very goal oriented, so it's a concept they can really grasp."

The athlete's busy travel schedule is the biggest impediment to progress, Plewes said. "It's hard for them to keep focused on learning about their finances during the season because they're constantly on the road."

When athletes do have down time, Octagon focuses on conveying the concept of risk and return as a starting point in their financial education. "They're constantly being approached to put money into deals, and they're always hearing about deals in the locker room, but they're not seeing the whole picture," Plewes said.

As for learning about financial instruments like stocks and bonds, Octagon waits until the athletes are older and wiser. "If they're unfamiliar with concepts like equity and fixed income and you try to introduce them up front," Plewes said, "the younger athlete may tend to be overwhelmed. And if you turn them off, it's hard to get them back."

GATEKEEPING

Successful athletes are used to being coddled from an early age. "No one says 'no' to them," said Paul Tramontano, co-chief executive of New York-based Constellation Wealth Advisors, which is working with New York University on a research study on the finances of professional athletes after they retire. "They need someone to say 'no' on their behalf."

But helping clients filter out unwise investment propositions requires understanding, sensitivity and diplomacy, Tramontano noted. "When you've made a lot of money, it's natural for the people around you to expect to share in the payoff," he said. "And it's fine to help people who have supported your rise to stardom -- in a measured and careful way."

The problem, he continued, is when the financial support is not prudent or "taken to excess."

The brother of one of his clients, for example, had asked for a considerable amount of money to open a restaurant. The athlete was close to his brother, who had looked out for him in a tough neighborhood while growing up.

"I advised the client not to invest in the restaurant because there was a good chance he could lose all his money," Tramontano recalled. "But I said if he wanted to help his brother, write him a check for half the amount."

GOAL-SETTING

Studies show that about seven out of 10 professional athletes go broke after their careers are over, said Norm Greenidge, national director of Northern Trust's Professional Athlete Group. "We're trying to help our clients navigate financially throughout the course of their careers and beyond so they can keep and enjoy their money," said Los Angeles-based Greenidge.

Setting realistic goals and carefully managing what the athletes earn and spend are key starting points, he said. Using credit wisely is also critical, Greenidge noted. "Athletes only get paid during the season, and they end up using credit to support the lifestyle they are accustomed to while getting paid. It's very important to monitor that use of credit carefully."

Implementing a transition plan for a client's post-playing career is also crucial, said Greenidge. The problem, he says, is that when it comes to listening to financial advice, "there is a lot of misplaced trust" among successful professional athletes because of their celebrity. "They're often isolated among a select group of people they feel they can trust, and don't allow themselves to listen to a different point of view."

To break this barrier, Northern Trust has been showing clients videos of retired players discussing financial issues they've dealt with. "They're sharing real life experiences that players can relate to," Greenidge said. "And it's easier for athletes -- and their families -- to relate to these retired athletes because of their credibility and the respect they command. It opens up the door of misplaced trust."

INVESTMENT STRATEGY

When it comes to portfolio management, tax efficiency is key: Professional athletes tend to be in high-income tax brackets that can reach up to 50%, depending on surcharges and what states they live, said Michael Conway, chief executive of Conway Wealth Group at Summit (N.J.) Financial Resources.

To that end, Conway prefers to put his sports stars in municipal bonds and ETFs in efficient markets such as large caps and index funds. He also said he is beginning to use no-load annuities, because no tax is paid on the gains until the money is taken out -- presumably after the athlete is close to 60 years old.

Conway said he is reluctant to put younger clients without long-term contracts into annuities, however because if they do withdraw the funds before they are 59½, they must pay full taxes and a 10% penalty.

Even for athletes who have signed long-term contracts, Conway said he wants to minimize risk as much as possible. "The reality is they may be done playing at 28 years old and may need to live off that money for the next 50 years," he said. "I like to have a fairly modest allocation of riskier assets."

INSURANCE NEEDS

It's difficult to explain risk management to professional athletes because they're risk takers by nature, according to Christina Winch, a planner in Appleton, Wis.

"It's a dangerous paradox, Winch said, "because often these athletes are the people who need to insure themselves the most."

Good insurance is critical for players and their families, she said, "because they're young and they're exposing their bodies to all kinds of physical risk. And, frankly, many of them drive their vehicles the way they play their sports -- fast. They need house, auto, life and liability insurance, and they should have umbrella policies."

Financial advisors can provide a valuable service as risk management specialists, Winch maintained. "I tell [athletes] it's OK to have a healthy skepticism about insurance companies and premiums, but understand that the expense you're laying out is called risk management and it is an absolutely critical component of your wealth management structure."

EVALUATION

Sometimes the one of the most important decisions is actually whether to work with an athlete in the first place, said Andre Mirkine, associate vice president of investments, for Wells Fargo Advisors in Greenwich, Conn.

"The first thing I do is talk about a holistic financial plan, and discuss areas like investment strategy and credit scores," said Mirkine, who is also the president of the Sports Financial Advisors Association. "I want to build a rapport and put a disciplined plan in place. But I need gauge how much the athlete will buy into it, or if they prefer a hyper-consumptive lifestyle. If they just want someone to monitor the outflows of their cash, it's not going to work. "

How does Mirkine make his final decision? "Sometimes they make it easy for you," he said. 'They just say no."

Otherwise, Mirkine relies on a "gut sense" honed from a dozen years of experience. "You watch body language, you see if their eyes glaze over when you're talking about financial planning," he explained. "You want to see if they're willing to be educated.

"I want my clients to be an active participant and not passive," he continued. "That's also the goal of our association: to have educated participants in the process of managing their hard-earned money."