

# Athletes and Entertainers

Fundamentals for developing a **wealth strategy**



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#### **Athletes and Entertainers**

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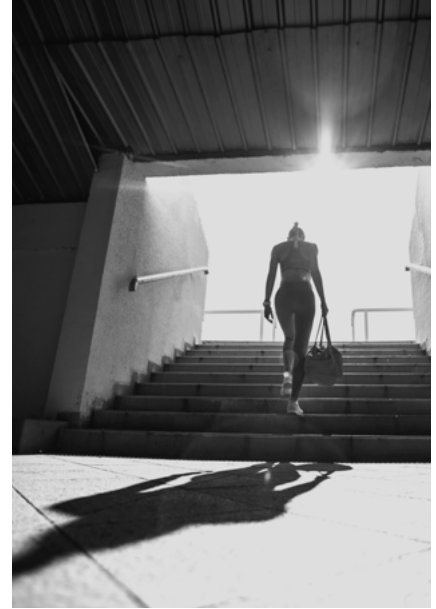
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## Introduction

Professional athletes and entertainers often experience peak earnings in a relatively short duration earlier in life. However brief this period is, their peak earnings typically dwarf what an average individual earns in a decade or lifetime. As a result, athletes and entertainers often face unique financial challenges, circumstances, and considerations at a relatively young age, when financial decisions can have a long-term impact on personal wealth.

This report highlights the critical financial challenges and decisions that professional athletes and entertainers face. We then present a structured approach to help athletes and entertainers, like you, confront these challenges with clarity, and make informed financial decisions based on your interests, values, passions, lifetime goals, and legacy objectives.

As always, we hope you find the content useful for defining your wealth strategy, and reaching your desired financial outcomes throughout each phase of life—and across generations.

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## Unique financial challenges

Many professional athletes and entertainers have neither the time nor the inclination to think about how their future might look years or decades down the line. Moreover, their financial circumstances and the financial challenges they face are often unique compared to the rest of the population:

- Athletes and entertainers, generally speaking, experience a starkly different career trajectory than most individuals. They can have years where their income dwarfs what an average person would make in a lifetime.
- They also have a lot less predictability around their earnings, are burdened with the knowledge that their career can end abruptly, and frequently face significantly reduced earnings potential after their career is over.
- Many athletes and entertainers feel an obligation to support family and friends financially—high income, however temporary, can make it harder not to “share the wealth.”
- Most receive far less than what the top-line number in their contract would imply, but that’s not always clear to friends and family looking for financial support. After taxes and fees, athletes and entertainers often “take home” 50% or less of the top-line value.

## Universal financial considerations

Despite the unique financial challenges and opportunities that athletes and entertainers face, in many ways they are also fundamentally similar to the general population:

- They have family, friends, values, and charities that they care about and want to impact, now and in the future.
- They need to establish a reasonable budget that reflects their current reality, along with their longer-term needs, goals, and legacy objectives.
- They have to determine the most effective way to invest their savings.
- They face disability risk, longevity risk (running out of money), and mortality risk.

# A structured approach to wealth management

Ultimately, athletes and entertainers can face a steep financial learning curve while at the same time remaining one of the top performers in the world. Nevertheless, finding clarity to make informed financial decisions involves a cyclical process that generally includes:

- Uncovering your interests, values, passions, lifetime goals, and legacy objectives (Fig. 1)
- Coordinating and communicating relevant information across your trusted advisors and advocates (Fig. 2)
- Developing a complete picture surrounding your situation and circumstances
- Establishing an annual budget with monthly or periodic reviews
- Aligning your cash flows, assets, and resources to address your needs and desired outcomes throughout life

Figure 2  
**A team of trusted advisors and advocates**  
 Many athletes and entertainers hand select a team of professionals



Source: UBS

Figure 1  
**You set the foundation of your wealth management strategy.**  
 Based on your goals, interests, beliefs, values, passions—and those of all the people around you

Who are the <b>people</b> that matter the most to you?	What do you want your <b>legacy</b> to be?	What do you want to accomplish in your <b>life</b> ?	What are your main <b>concerns</b> ?	How do you <b>plan</b> to achieve your life’s vision?
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Source: UBS

**Liquidity. Longevity. Legacy.**

Our approach to wealth management is built on the foundation of your interests, values, passions, goals, and financial objectives. Figure 3 illustrates this approach, which allocates wealth and resources into three key strategies that we call the 3Ls—Liquidity. Longevity. Legacy.—to help provide cash flow for short-term needs, for longer-term needs, and for needs that go beyond your own.<sup>1</sup>

At its core, the 3L approach to wealth management is a blueprint to help understand how to allocate all of your assets and liabilities to meet your spending objectives. It is designed to provide clarity for all the financial decisions embedded in your interests, values, passions, lifetime goals, and legacy objectives.

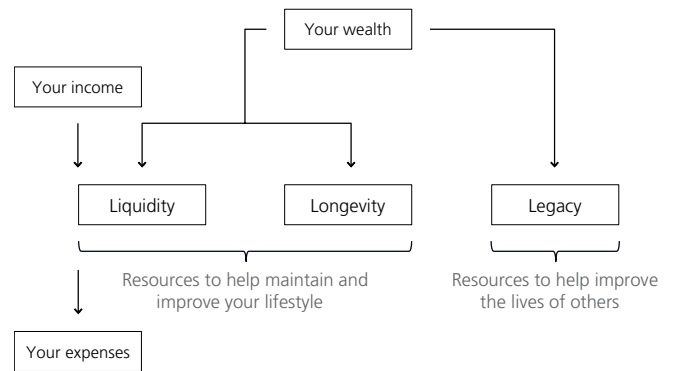


Figure 3

**Three key strategies—Liquidity. Longevity. Legacy.—to allocate your wealth**

The relative size of each strategy and the resources that they contain change throughout your life cycle



Source: UBS

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

<sup>1</sup> Michael Crook, Jeff LeForge, Justin Waring, and Ronald Sutedja, "Liquidity. Longevity. Legacy. A purpose-driven approach to wealth management (UHNW)," UBS Chief Investment Office Global Wealth Management, April 2018.

## Evolving aspects of wealth

Professional athletes and entertainers can experience vastly different career trajectories at the individual level. In the following sections, we present key topics to help guide meaningful conversations between you and your trusted advisors. Figure 4 illustrates a hypothetical example of resources and components allocated across the Liquidity. Longevity. Legacy. strategies to help serve as a blueprint when developing your 3Ls.

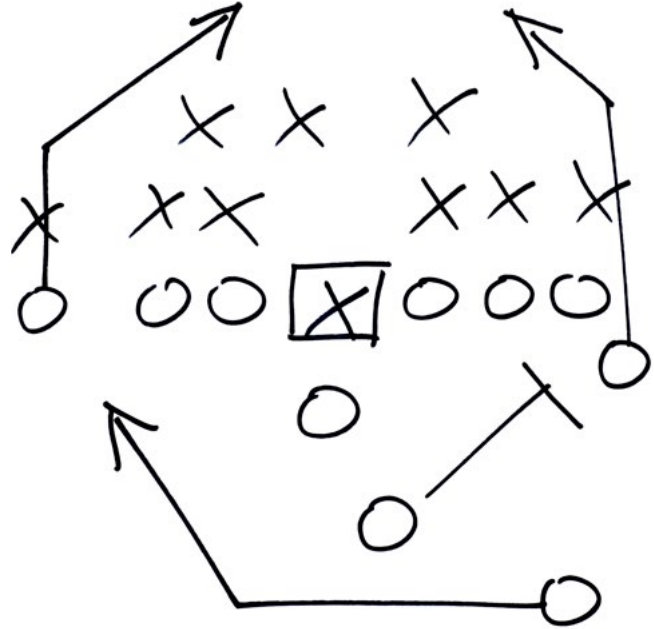
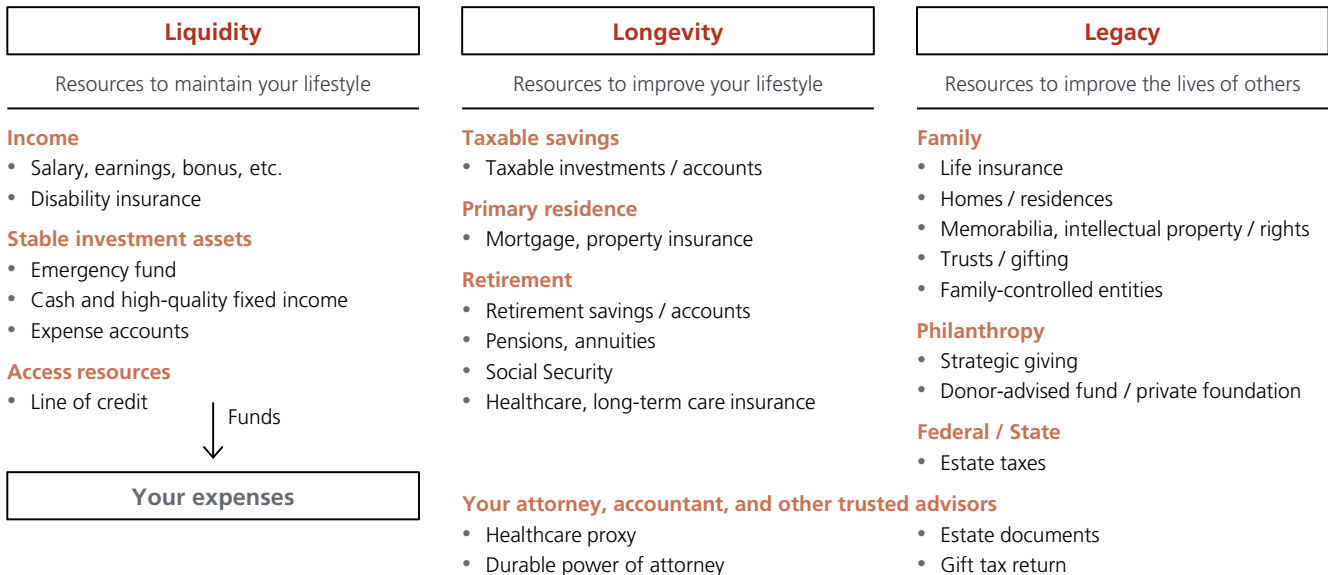


Figure 4

### A blueprint to Liquidity. Longevity. Legacy.

The relative size of each strategy and the resources that they contain change throughout your life cycle.



Source: UBS

Strategies are subject to individual client goals, objectives and suitability.



### Early professional years

Below are some key points to consider in the early phase of your professional career:



**Budgeting:** Budgeting is the process of estimating future income and expenses over specified periods, for example, monthly and annually. Along with periodic reviews, it can be useful to create a "nondiscretionary" expense account to manage obligations like taxes, rent or mortgage payments, and other commitments. Similarly, a "discretionary" expense account can help maintain disciplined spending on the things you want (but don't necessarily need) like travel, shopping, and other luxuries.



**Benefits programs:** Benefits programs can vary greatly by organization, but some common examples of benefits are medical insurance, health and retirement savings plans, pensions, annuities, life and disability insurance, and maybe even education assistance. It's important to evaluate your available options each year and to make the necessary elections so that you get the most of your benefits programs.



**Cash management:** Many athletes and entertainers receive their annual salary during certain months or weeks of the year and need to account for the period in between. The Liquidity strategy helps to address the periods where future expense estimates exceed future income estimates by holding stable assets, like cash or high-quality fixed income, to cover the shortfall.<sup>2</sup>



**After-tax savings:** Holding too much cash can be detrimental to long-term wealth because the return on cash generally fails to keep pace with the rising cost of goods and services. Therefore, the income that's not needed to fund your Liquidity strategy and benefits programs goes to the Longevity strategy's diversified growth portfolio, which is intended to keep pace with or exceed the rising cost of goods and services over the long term.



**Estate planning:** In the absence of an estate plan, your assets will be disposed of under state "intestacy" laws, which may or may not reflect your wishes.<sup>3</sup> A basic estate plan includes 1) powers of attorney, 2) medical directives, and 3) wills or revocable trusts.<sup>4</sup> Given the public visibility of athletes and entertainers, however, revocable trusts are recommended so as to keep affairs out of the public eye in the event of an untimely death.<sup>5</sup>

Strategies are subject to individual client goals, objectives and suitability.

<sup>2</sup> Dan Scansaroli, Leslie Falconio, Justin Waring, and Jeff LeForge, "Implementing a Liquidity strategy," UBS Chief Investment Office Global Wealth Management, September 2020.

<sup>3</sup> Emily Brunner, "Estate planning for unmarried individuals," UBS Advanced Planning Insights, August 2019.

<sup>4</sup> Advanced Planning Group, "Estate planning 101," UBS Advanced Planning Insights, March 2020.

<sup>5</sup> Robert Madden, "Estate planning for the professional athlete," UBS Advanced Planning Insights, June 2017.





### Core professional years

As you approach the summit of your career, you will have additional, deeper points to consider:



**Evaluating opportunities:** Some opportunities present themselves while others may take time to develop. Weigh the trade-offs between offers, deals, endorsements, and other outside opportunities. In short, establish a plan for each contract and prepare for the post-professional years—before they arrive.



**Wealth accumulation:** In general, wealth accumulates by saving and through growth from savings. The overwhelming majority of savings for high-income individuals end up in taxable accounts, so the growth is subject to taxes. Tax-aware investing is a critical part of the asset allocation process that requires ongoing portfolio monitoring, rebalancing, and reviews to ensure assets and resources align with your needs and desired outcomes while minimizing the tax impact.



**Liability management:** Proactively managing the liability side of a balance sheet is an important part of wealth management. Prudent use of debt can help further diversify balance sheet risk and improve outcomes. For example, rather than selling investments and incurring an immediate capital gains tax expense, a loan can help to spread the liability over multiple years or decades, where future income may help to offset the debt payment while providing your investments with the opportunity to benefit from long-term, tax-deferred growth potential.



**Risk management:** There are two broad aspects for professional athletes and entertainers to consider when managing risks. First, losing out on income due to injury or disability, and second, loss of assets from potentially frivolous lawsuits. Income and asset protection strategies can help to mitigate the long-term negative impact to wealth. High earnings potential and public visibility may create a greater need for income and asset protection.<sup>6</sup>



**Philanthropy:** As part of the Legacy strategy, many professional athletes and entertainers want to use their public visibility and wealth to advance charitable causes that are important to them. High earnings not only provide the funds for such endeavors, but also stimulate the need for charitable income tax deductions that are sought by highly compensated individuals.<sup>7</sup> Donor-advised funds and private foundations allow a donor to make a charitable contribution in a given year and deploy the gifted funds over a period of time in accordance with the donor's Legacy strategy.<sup>8</sup>

## Conclusion

Ultimately, UBS's goal is straightforward: to help athletes and entertainers like you understand how wealth can be managed to help meet your lifetime goals and legacy objectives. We believe that the structured, purpose-driven approach of our Liquidity. Longevity. Legacy. framework can provide clarity surrounding the decision-making process and help mitigate the financial challenges you might encounter.

Strategies are subject to individual client goals, objectives and suitability.

<sup>6</sup> Robert Madden, "Estate planning for the professional athlete," June 2017.

<sup>7</sup> Robert Madden, "Estate planning for the professional athlete," June 2017.

<sup>8</sup> Advanced Planning Group, "DAFs and private foundations: Choosing an appropriate vehicle to drive philanthropy," UBS Advanced Planning Insights, August 2020.

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