2011

Life Planning for NFL Players

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LIFE PLANNING FOR NFL PLAYERS

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FOR

SPRING 2011

APRIL 20, 2011

I. Introduction

With players in the National Football League (NFL) making what seems to be the most money out of any entry-level position, it might come as a shock to many people to hear that so many players end up in financial distress afterwards. Sports Illustrated has put this number at 78% of players filing for bankruptcy or are in serious financial trouble within only two years of leaving the league, which is the highest of the numbers reported for any of the "Big 3" sports (Football, Basketball, Baseball).[1]

While filing for bankruptcy can be a smart path for some people in order to get a fresh start after accruing lots of debt, it is alarming how many people that are professional athletes and, in particular, in the NFL are doing this immediately after they finish their playing time.[2] The players seem to lack any sort of guidance on how they should be using their money. These athletes are given an amazing opportunity by being able to go to college, in most cases, for free and then make huge amounts of money for a few years afterwards.

A huge problem with playing in the NFL is the short career for the average player. The average time spent in the league is only about 3½ years.[3] With this in mind, the NFL players should treat their career and the financial gains more as a lottery winning than a career, but this doesn't happen. The athletes think that they will be the exception and not the rule and spend accordingly. They see people like Peyton Manning or Brett Favre, who were drafted in 1998 and 1991, respectively. They both have had successful careers

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1 Pablo S. Torre, "How (and Why) Athletes Go Broke," *Sports Illustrated*, 23 March 2009, http://sportsillustrated.cnn.com/vault/article/magazine/MAG1153364/1/index.htm.

[2]Torre

[3] "NFL Hopefuls FAQ," *NFL Players Association*, January 28, 2011, http://www.nflplayers.com/about-us/FAQs/NFL-Hopeful-FAQs.

and aspiring NFL players aspire to have that longevity. Players' time in the NFL can end in an instant with injuries that result in being placement on the Injured Reserve becoming more prevalent. Occurrences of concussions are also being reported at a rate that is growing at a frightening amount.[4]

But why is it that the NFL sends people into financial distress at a quicker rate and in higher numbers than the National Basketball Association (NBA) and Major League Baseball (MLB)? The slower rate for NBA players is because they have longer careers where they make more money. [5][6] It would be more difficult to frivolously spend this money and be in financial trouble. The MLB has a minor league system where players can go through, so not being on the "Big League" roster would not necessarily mean the end of their income stream. These players can have much longer careers with this system.

A first year player in the NFL in 2009 was guaranteed to make $310,000.[7] With this high minimum salary (which only gets higher for every year you are playing), it is shocking to see how the players are truly spending all their money and have nothing saved for later in their lives. One explanation could be the massive mortgages they are able to take out due to their high salary which they would not be able to pay when they don't have this stream of income coming in after a few years. The massive amounts due to their creditors would definitely require them to file for bankruptcy.

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[4] Tim Wendel, "The NFL Lockout's Health-Care Data, Revealed," *Esquire*, January 27, 2011, http://www.esquire.com/the-side/feature/nfl-lockout-2011.

[5] "2005 Collective Bargaining Agreement," *National Basketball Players Association*, June 30, 2005.

[6] Collegiate Basketball News, "Where the NBA players come from," *Rpiratings*, February 13, 2011, http://rpiratings.com/NBA.html.

[7] "NFL Collective Bargaining Agreement 2006-2012," *NFL Players Association*, March 8, 2006.

The last huge problem is that players are not receiving their college degrees. They are given athletic scholarships and the opportunity to receive your degree, which gives you a huge advantage when searching for a career path. The opportunity to not only attend for free, but get a stipend allowing you to have a place to live and complimentary meals seems too good to pass up.

There are solutions that can provide ways to plan for both their immediate finances and the more distant future with their career. They can address this by finishing college, setting a budget while factoring in how much money they truly need to spend, investing, having the NFL set up a retirement fund that can help shelter and defer funds to low income years, and deferring the maximum amount of compensation allowed[8], also into low income years.

Although players should take advantage of their free college education, they have other options they can utilize. The NFL has opportunities that encourage players to attend school through their NFL Continuing Education Program. This involves a Tuition Reimbursement Program.[9] It seems that people have been utilizing this and should continue to do this. Because the NFL Players don't actually know how long they will be employed, they should not put this off either.

Players should set a budget that they can spend, be it on a nice TV or a car, but not go over that. They are making more than any other entry-level job out of college. Because of this, they should set the spending amount around that of some of their highly compensated peers. This would give them plenty of spending money and allow them to have money for their lavish needs and still be responsible with investments.

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[8] Collective Bargaining Agreement 2006-2012
[9] Collective Bargaining Agreement 2006-2012

The NFL gives the players an opportunity to help themselves out with voluntary contributions to their 401 (k) plan, which is a defined contribution plan. The players should take advantage of this while they can and maximize their contributions. After their football careers have ended, players can then elect to have this money, taking a 10% penalty.[10] This would defer some of their compensation into years when they are in much lower tax brackets. The money would also be accruing interest as it was waiting to be withdrawn, which would be a great thing to let work on its own. With this 10% penalty being utilized, the athletes can have a safety net to fall back on if they do, in fact, come across hard times.

Because the players will be making so much money, they should take advantage of the opportunity and start investing early. Being proactive would allow the athletes to start raising their net worth immediately by either receiving interest on an investment or having the investment grow. A good place for the athletes to look would be the stock market, which has a stable growth pattern when viewed over long periods of time. There should be no excuse for keeping extra cash on hand that is not needed for their expenses. The players could utilize investments with the favorable capital gains tax rate as well to help ease the burden of taxes later on when they need the money.

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[10] 26 USC 415, 2011

II. Problems

Why NFL?

The reason that the NFL bankrupts its former players the fastest is dually in part to their career length and the salary that they make while playing. Players in the NFL can expect to be active for 3 ½ years.[11] This means that, if players start their career at age 22 (when they would be either finishing their junior or senior year of college), they can expect to be out of work before age 26. What the age of unemployment means is that the players won't be set for the rest of their lives after their playing career is over. In fact, over ¾ of the athletes will be in serious financial trouble before age 30.[12]

After a career in the NBA, players can expect to last a longer amount of time before going broke. It is estimated that 60% of NBA players will be in the same sort of trouble within 5 years of leaving the league.[13] Although 60% is still a scary number, it is more manageable. One reason they can last longer is that they have longer careers than people in the NFL. As the 2010 season began, the average amount of experience for a player was almost 5 years.[14] Over these 5 years, the players are also expected to make more money than people in the NFL. The NBA's salary growth rate is, over a number of years, similar to that of the NFL. The difference for the NBA, though, comes in the first 1-2 years of experience. The league minimum salary's increase just from your rookie year to your sophomore year is about 67%. The base salary for your third year compared to your rookie year is a 93% increase, meaning you will be making almost double the

[11] NFL Players Association
[12] Torre
[13] Torre
[14] Collegiate Basketball News

amount of money as when you entered the league.[15] By comparison, the jump for NFL rookies to their second year is 22.5% and the increase from the rookie year to the third year is 58%. This is still a huge number, but looking at them can help to better understand why NBA players can avoid financial distress for longer. They already start out with more money than the NFL players and play for longer. Simply put, even with the same spending habits it would take longer for the NBA players to be able to actually go through all their money. Even after only three years, NBA players will be guaranteed to make about $500,000 more (net income tax expense) than those in the NFL (see table 1). The basketball players will then continue to make more money due to their continued employment (on average) for about 2 more years.

Table 1. League Minimum over 3 years for NBA and NFL starting 2009, net Income Tax

	NBA League Minimum			NFL League Minimum		
Year	2009	2010	2011	2009	2010	2011
Salary	442114	736420	854389	310000	400000	490000
Income Tax						
Expense	132423.4	235390.8	308975.6	59380	117643.8	164677.6
Net	309690.6	501029.3	545413.4	250620	282356.3	325322.4
Total/3 Years			1356133			858298.7

There are also far less players active at a given time in the NBA. They allow 12 active players for each team's roster and currently 30 teams.[16] This means that there can be only 360 active players at one time in the NBA. By comparison, the NFL allows 53

[15] Brown
[16] NBPA Collective Bargaining Agreement,

active players on each roster and there are 32 teams[17], meaning that there would be 1,696 active players at any time in the NFL. There are also many more college players to choose from for football than basketball. The National Collegiate Athletic Association (NCAA) allows 85 scholarship football players on the roster at any time, while they allow 13 scholarship spots for basketball. With more players to choose from in the NFL, it would make sense that there would be a quicker turnover of players than in the NBA.

Major League Baseball (MLB) also does much better than the NFL in terms of financial distress for their players. There are a number of factors that could be driving this. The main factor is that people are not drafted or signed right to the major league rosters. They have an entire minor league system to go through, and the chances of someday making the actual major league roster can be low. There were 1525 players drafted in 2010. Each Major League club has 40 roster spots (at the most); so with 30 MLB teams, it is possible to have 1,200 active players at one time. With this in mind, it is easy to infer that there is a very low chance of making it to the Major Leagues through all the Minor Leagues.

The San Francisco Giants, for instance, list 5 Minor League Affiliates (starting with Short-Season Class A) that a prospect would have to stop at before reaching the Major Leagues.[18] The locations of these teams alternate sides of the country, having a cluster in the South (Georgia and Virginia) and the West Coast (Oregon and California). Knowing this, a Minor League prospect would be able to understand that it would be silly to spend their money on buying a house and take out a mortgage when they would be continuously moving.

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[17] Collective Bargaining Agreement 2006-2012

[18] "Minor League Affiliates," *San Francisco Giants*, February 21, 2011, http://sanfrancisco.giants.mlb.com/mlb/minorleagues/affiliates/index.jsp?c_id=sf.

The players in the MLB do not make as much money as people in the NFL or NBA from the start. During the first contract season, Minor Leaguers make a maximum of $1,100 per month.[19] With these modest wages for a professional athlete, the player would be more concerned with making ends meet than spending money on lavish things. Signing the next contract, the minimum salary (from 2009-2010) would be $32,500, which is also is a smaller number for a professional athlete. Because these baseball players would need to budget their money throughout their minor league career, they would probably have a better idea and a steadier stream of income throughout their playing career. Even if they were to reach the majors and be cut, they could possibly play again in the minor leagues if they wanted to, making a good salary.

Table 2. Minimum Salaries for Minor League Baseball, net Income Tax.

	MiLB Minimum Salary		
Year	(1st Contract)		
Salary	2009	2010	2011
Income Tax			
Expense	32500	32500	32900
Net	4456.25	4456.25	4516.25
Total/3 Years	28043.75	28043.75	28383.75
			84471.25

The players in the MLB also have longer careers. It was expected that careers last 5-6 years for position players (not including pitchers).[20] With salaries that force you to spend money wisely and longer careers (after you reach the Major Leagues), it is not a

[19] "MLBPA Collective Bargaining Agreement 2007-2011," *MLB Players Association*, December 20, 2006.

[20] Sam Roberts, "Just How Long Does the Average Baseball Career Last?," *New York Times*, July 15, 2007, http://www.nytimes.com/2007/07/15/sports/baseball/15careers.html?_r=2.

shock that the numbers are much better for the MLB than the NFL. NFL players can actually afford to be frivolous with their money while they are playing and get away with it. The players would probably even have a little left over, not taking their expenses after their playing time into account.

Bankruptcy/Financial Distress

To understand what the players in the NFL would most likely be struggling through, you need to examine the type of financial distress they are in and what bankruptcy really means. The football players would be applying for Chapter 7 or Chapter 13 individual bankruptcy. Although these are different, they both result in being discharged from your debts and a somewhat clean start. Even with this somewhat clean start, there are problems that do come along and it isn't a pleasant process to go through.

Chapter 7 is liquidation bankruptcy, which is for people that are having the most trouble. NFL players (debtors for the proceedings) would need to apply for Chapter 7 and, if the application is not approved, they could be reassigned to Chapter 13. To be approved for this, an athlete's average monthly income is compared to the median income of other people in the same geographic area. After the median income comparison, a debtor's disposable income is examined. To calculate this, the bankruptcy courts deduct living expenses and payments on secured debts from the debtor's monthly income. It is then decided if they are in enough trouble to actually qualify for liquidation. When filing, the players would receive an automatic stay, which is a suspension of actions that creditors can take against them outside of the bankruptcy proceedings, which gives the athletes some breathing room from all of their payments. What Chapter 7 does is assign a bankruptcy trustee. The trustee's job is to take all of the filer's nonexempt assets and sell (liquidate) them. They then proceed to give the proceeds to the creditors. After this process has been completed, the debt is discharged.[21]

Chapter 13 bankruptcy is a reorganization of a player's debts and can be arrived at from either a voluntary conversion from Chapter 7 or a court mandated conversion. Athletes with under $360,475 in unsecured debts and $1,081,400 in secured debts can qualify for this. One huge benefit Chapter 13 provides is that it allows debtors to keep a valuable asset, such as their home. The goal is to make a plan which effectively pays back the creditors that have claims on a debtor's assets. If a debtor takes the Chapter 13 path, they can expect to make a 3-5 year payment plan. During this period, the players would be able to stop foreclosure proceedings and cure delinquent mortgage payments, although they will still be responsible for the upcoming payments. Once all the payments are complete, the athletes would be discharged from their debts as well.[22]

Even though people who file for bankruptcy are discharged from their debts, they still run into problems after the proceedings. It is not the clean slate that is generally assumed. A study by The Ohio State University states that "people who declare bankruptcy catch up to non-filers in terms of savings in about 12 years, total income in 14 years, home ownership in 14 years, and net worth in 26 years." It goes on to state that people who have filed for bankruptcy end up with more car debt and a lower occurrence of home ownership.[23] Although these margins are small, it does show that bankruptcy does set people back. The study also found that people who had filed for Chapter 7 take

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[21] "Bankruptcy Basics," *The Bankruptcy Judges Division*, April, 2010, http://www.uscourts.gov/uscourts/FederalCourts/BankruptcyResources/bankbasics.pdf.

[22] Bankruptcy Basics

[23] Jay Zagorsky, Jeff Grabmeier, "Study: After Bankruptcy, Americans Need 10-20 Years to Recover," *The Ohio State University*, June 27, 2008, http://researchnews.osu.edu/archive/bankruptcy.htm.

longer to catch up with the non-filers than people who filed for Chapter 13. This is probably because the people who have filed for Chapter 7, as a whole, would have made choices with their money that put them in a worse situation. This is clear from the requirement that, to file for Chapter 7, an athlete would have less disposable income, meaning their expenses would need to nearly match their amount of income. It would make sense that the filers might make slightly worse monetary decisions because the habits would be slightly worse, and slightly harder to break.

One thing that people filing for bankruptcy can hold as an exemption is their retirement accounts.[24] This means that, even if someone would have to file for bankruptcy, their pensions and these accounts are safe from the proceedings. Due to this rule, the players filing would be able protect some of their assets by maximizing their contributions to these accounts. This protective asset would be an effective way to safely plan for the future for not only themselves, but their families. The money in these accounts would be safe and hopefully earning interest and growing, even as the proceedings take place. If O.J. Simpson's case is examined, one can see how he was able to avoid creditors reaching these assets after his costly loss to Ronald Goldman in a civil suit. Because he had effectively put funds into his retirement funds, he was able to have a sizeable exempt amount from these proceedings.[25]

Although bankruptcy does give a debtor a clean slate, they would have to take it with a grain of salt. It is a tough procedure to go through and it would not ultimately leave a player in the best situation. Regardless of the semi-clean slate, the fact that people who have played professional football file for bankruptcy so often is a shame.

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[24] Bankruptcy Basics

[25] Liza Horvath, "Liza Horvath, Senior Advocate: IRA assets safe from creditors," *The Monterey Herald*, January 31, 2011, http://www.montereyherald.com/local/ci_17248664?nclick_check=1.

The athletes have made enough money so that they should be comfortable while they are playing and then years to come, especially while they look for a new career. They don't need to have to deal with this huge problem with some sound financial planning.

III. Reasons

Time Playing/Injuries

The amount of time that football players are active in the NFL is surprisingly low, and this is where many problems come in. The fact that the players are used to being the best and are not used to failing, especially on the football field, most likely leads to a mindset that they will be the exception, and not the rule. Even if the talent is not what is holding them back, injuries are becoming more and more prevalent in the NFL. With such a violent sport, a career can end during any play. Mild Traumatic Brain Injuries (MTBI) are becoming much more common.[26] The fact that MTBI's can not only end a player's career if they have had too many or can possibly cause serious problems later in life means that it is just that much more important that people spend more wisely while they are employed by the NFL.

According to the NFL Players Association, the average career for NFL players spans a modest 3½ years.[27] This is a much quicker turnover than many casual fans and players assume. The players should assume that they will be average and won't be playing any longer than that and plan accordingly. The athletes think that they are going to be the exception to this average career length and have a meaningful, long career. They might hear about players such as Brett Favre or Peyton Manning who were drafted in 1991 and 1998, respectively. These two famous figures have had these long careers and have been able to make a lot of money throughout them. The players watching them would obviously want to strive to be like them and to have that kind of career. The

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[26]Edgeworth Economics, "Dangers of the Game NFLPA Injury Report," *Esquire.com*, January 26, 2011, http://www.esquire.com/cm/esquire/data/Dangers-of-the-Game-Report-Esquire.pdf.

[27] NFL Hopefuls FAQ

athletes should, instead, be the pessimist and take a hard look at their chances before making fiscal decisions.

The problem may come from the confidence that these players have. The players have made it through so much and have typically been the star on every team that they have been on. These football players are not used to failing and some might think that if they do get this idea that they won't actually make it, it will make them worse. In Foundations of Sports and Exercise Psychology, it talks about the self-confidence that many players have.[28] To play at such a high level, they have to believe in themselves. Jimmy Connors, a tennis player, said "The whole thing is to never get negative about yourself…the minute you start thinking about these things, you're dead. I go out to every match convinced I am going to win. That's all there is to it."[29] This idea is what makes the players so great but can also be their downfall. One solution to this is to just view your view one's playing career and one's finances as completely different aspects of their life. The athletes need to take a step back and evaluate what will be the best for themselves in the future.

Being injured does not necessarily mean the end of an athlete's career and they can come back form it. There is a process that players need to go through and, according to the CBA, if they are injured from playing then they cannot be terminated from that.[30] The problem is that the players that would need this protection most would be ones that don't have as much power and possibly don't have multi-year contracts. If players are injured and have another year on their contract, the players can receive up to half of their

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[28] Robert S. Weinberg, Daniel Gould, "Foundations of Sports and Exercise Psychology," (Human Kinetics), 2007, http://books.google.com/books.

[29] Foundations of Sports and Exercise Psychology, 322

[30] Collective Bargaining Agreement 2006-2012

salary the next year if they are released before the pre-season tests the next year. This process still is a hard thing to go through and, even if players don't recover from their injuries, a preliminary study for the "Dangers of the Game" report, which was prepared for the NFL Players Association, shows that players that are placed on the Injured Reserve (IR) are more than twice as likely to retire the next year than players that aren't. In addition, players that have been placed on the IR typically have a compensation growth less than a player that isn't put on the IR.[31] Simply put, if football players are injured, they (on average) won't play as long and will make less money.

It also might hurt to think about injuries, but they are a real part of the game and they are happening more and more. The "Dangers of the Game" reports also give analysis of the injuries that have been recorded throughout the NFL seasons from 2002-2010. The data shows that injuries are becoming more common, especially in the last few years. Between 2002 and 2009, 11% or players were placed on the IR. During 2010, however, 16% of players were placed on the IR. This growth in players being placed on the IR is concerning because of the hardships that players on the IR already have. Not all injuries do result in being placed on the IR, though. From 2002-2009, 59% of players sustained an injury during the regular season and during 2010, that number rose to 63%.[32] There does seem to be a correlation because all types of injuries are on the rise.

The most alarming type of injury is the MTBI. This is an injury that has started to be associated with Alzheimer's disease. Dr. Elaine Peskind, who has studied soldiers in Iraq, stated that traumatic brain injuries "(are) the best-established environmental risk

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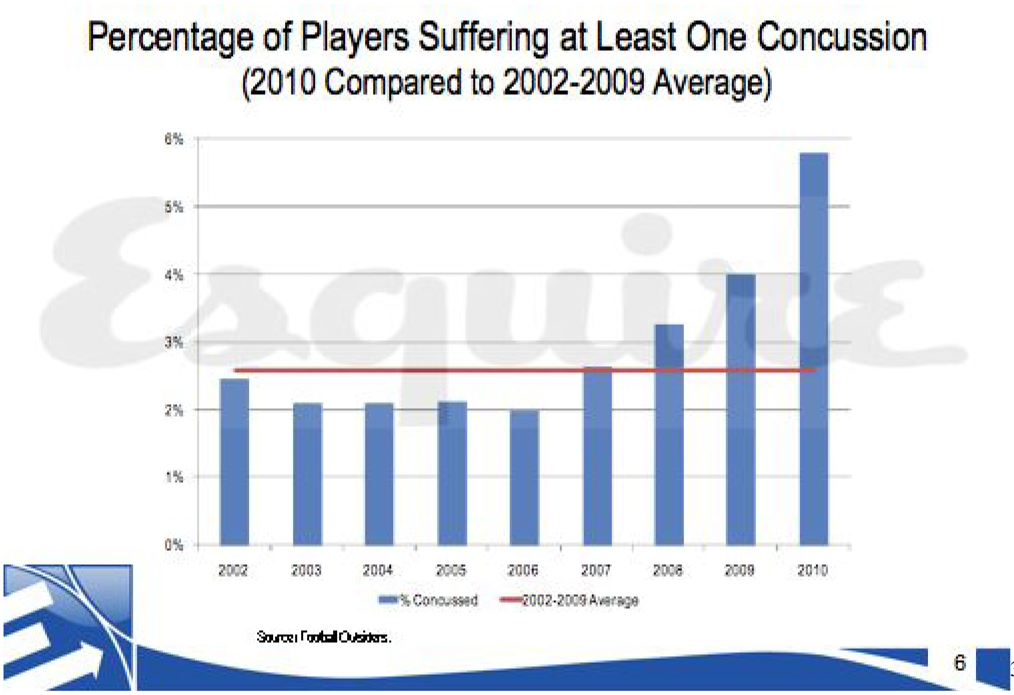
[31] Edgeworth Economics, "Dangers of the Game: Injuries in the NFL," *Esquire*, September 6, 2010, http://www.esquire.com/cm/esquire/data/Dangers-of-the-Game-Draft-Esquire.pdf.

[32] Dangers of the Game NFLPA Injury Report

factor for Alzheimer's…"[33] Although there hasn't been enough time to have the long-term studies that would directly correlate these two, it is frightening that they do seem related. MTBI's are becoming more and more common, especially in the past few years. This chart from the "Dangers of the Game" report, through an article in Esquire, shows concussions through the years.



[34]

The increase from 2007 on is very distressing. Even with the threat of large fines or possible suspension as a consequence for helmet-to-helmet hits[35] for the 2010 season, the number is still increasing. This is something that should be a red flag. There also are more MTBI's as the season progresses (as a percentage of total injuries) according to the

[33] Office of the Secretary of Defense Public Affairs, "Mild Brain Trauma May Increase Long-Term Alzheimer's Risk," *Defense Video & Imagery Distribution System*, December 8, 2010, http://www.dvidshub.net/news/61565/mild-brain-trauma-may-raise-long-term-alzheimers-risk.

[34] Dangers of the Game NFLPA Injury Report

[35] Chris Mortensen, "NFL to announce suspension for hits," *ESPN*, October 19, 2010, http://sports.espn.go.com/nfl/news/story?id=5701512.

same study (with the exception of the Super Bowl, where there were no reported MTBI's from 2004-2009).[36] With this trend of increasing injuries in mind, even the idea of extending the regular season to 18 games could be more dangerous than expected.

What players should do is to take that step back when looking at their lives and their future in this aspect too. To play in the NFL is considered to be a gift and it should be amazing for athletes to do what they love, but they should take a hard look at what the consequences could be. If a doctor says that one of the players in the NFL has had too many concussions, that player shouldn't try to be a hero and should retire from football on top. The MTBI's are just becoming more common and the consequences later in life seem to suggest that pushing through it and ignoring the signs would not be worth it. The athletes should take the funds that they have acquired and invested wisely and retire with their health and their dignity.

High Salary/Taxes

One huge problem with making such a high salary is the burden placed on the NFL players through income taxes. The taxes seem to be administered in an unjust fashion. The players are paying the same as people that will make this every year, but they will still have to deal with it. By implementing some strategies discussed later, they can do the next best thing by minimizing their tax expense.

Over the three years in the NFL, the players would be expected to make $1,200,000. This large sum of money does come with a catch though. Without any tax planning, the average tax rate through this span is 30%. This means that they could be giving up around 1/3 of their money through taxes alone. The reason that some athletes

[36] Dangers of the Game: Injuries in the NFL

would have to pay such a large amount of money through their income tax expenses is because the Internal Revenue Service does not care if they are making the amount of money over one year or every year. The fact that continuing employment is assumed is a huge problem, especially when we take into account the fact that the players could lose their job at any moment.

A good figure to look at is Adam Smith when talking about tax theory. Adam Smith's ideas served as an inspiration to the forefathers of the Unites States of America as the country was being founded and still influences people today. He laid four maxims for taxation and the first one was "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."[37] . What he means is that citizens should pay to their abilities. One might argue that it isn't fair for these players to be taxed the same amount as someone who consistently makes $400,000/year. The athletes could be using this money to help save for the future. This argument that takes future earnings into consideration is the difference between annual and lifetime horizontal equity. Is it really fair that some lottery winner would have to pay the same tax as someone that makes that on a yearly basis?

A fair way to go about taxes would be to base them on the marginal utility of each dollar of income. The lottery winners would, theoretically, need each dollar more if they were typically only making a modest salary. It would be fairer if there was some way to evaluate this. Unfortunately this is only tax theory and this argument would not hold any

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[37] Ian T.G. Lambert, "Some Modern Principles of Taxation-Adam Smith Revisited," *Cooperative Individualism*, January, 1992, http://www.cooperativeindividualism.org/lambert-ian_on-adam-smith.html.

weight with the Internal Revenue Service at this time. Every US citizen is responsible for paying their taxes. What players in the NFL can do, though, is pay the absolute minimum that is due without crossing over from tax planning to tax evasion and minimize their income tax expenses.

Paying the minimum possible tax is the job of each player and citizen. The athletes are supposed to know what they are doing. Something important to remember for these football players is not to get lazy with their taxes and to take all of their finances seriously. Even if the amount of taxes the IRS wants from NFL players isn't fair, they should do their best to insure that it doesn't cross the line any more than it needs to.

Trust

A huge problem that seems to come up an alarming amount is the people that the players will actually trust. While the players should be concerned with making the most of the money they are receiving, many come across problems with who to trust or where they put their money. It seems that all too many people are concerned with making the huge investment and should know that they aren't going to get that huge return that they heard of someone making.

Football players could easily make a mistake and trust somebody just because they know them or because they trust them on the football field. What players should realize is that they should not mix their friendships and finances. Finances are supposed to be a sacred thing and an athlete should not go making investments on a whim. While the players are in the NFL, they have the upper hand. They are making enough money that finance professionals should be lining up, wanting to invest it for them. This is a good thing and should be used in a positive manner. It seems that many players might take this to mean that, because they have so much, it doesn't matter as much and it would be worth it to put it where it could help somebody that they know. The problem with trying to help out a friend is that this decision could easily result in a loss. If the players are going to actually play for only three years, then it also would not make sense to take much of a risk with their money. Steve Atwater, formerly of the Denver Broncos, made this mistake and has to live with it. An article posted by ESPN talks about how he recruited his teammates to invest with him in a firm that ended up being a scam, and cost them all a total of $20,000,000.[38] This is not only terrible for each of their finances, but for their friendship as well. Although players' friends might not mean any harm, any transaction could still result in a large loss. The same thing goes for picking anybody involved in an athlete's finance. Keep it separate and there should be no substitute for athletes doing it themselves.

One example regarding making investments could be a friend that wants to open a sporting goods store or a restaurant. The investment would be a "sure thing" but it needs a huge amount of capital. The problem would come with the diversification, or lack thereof. A good portfolio is one that is diversified and has different types of investments in it. Even if this is a good idea, players investing the majority of their capital in this opportunity would not be following sound investment logic. There is nothing to hedge against their bets here. The problem can be illustrated by examining it under the ideas of systematic and unsystematic risk. The athletes would be assuming both in this case. The systematic risk is the risk presented by the market, one that can't be diversified away.

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[38] Seth Wickersham, "Players' trust tested as business partners," *ESPN*, June 10,2008, http://sports.espn.go.com/nfl/columns/story?columnist=wickersham_seth&id=3427173.

The unsystematic risk, however, can be diversified away by having different things in a portfolio such as stocks, bonds, equity, etc. Any reasonable investor would account for this. The players in the NFL need to have this idea in mind when deciding how much to invest in anything, let alone who to trust. Trust cannot diversify away the risk.

There is also no such thing as a "sure thing." Startups are a very risky prospect. A businessweek study published in 2007 found that about 1 in 4 startup restaurants failed in the first year alone,[39] which is an alarming number. A large problem is that most of these restaurants probably had sound ideas and the best of intentions and it often would come down to the business execution…and a little luck. The failure statistic indicates that it really is a dangerous expenditure and, if football players were still interested, they should know the risk and account for it in their portfolios accordingly.

Mortgages

One of the biggest investments an individual makes is in their home. To finance this investment, the athletes would have to take out some sort of mortgage, which is where people in the NFL could possibly go wrong. They might think that they need to have a home and want to take out some sort of mortgage due to the optimism that they have towards their future and because they would be able to take out a lot of money with the income that they are receiving at that time. The bank would have no reason to deny the NFL players a loan because they enjoy a very high level of income and are employed, although this actually is not a smart decision.

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[39] Kerry Miller, "The Restaurant-Failure Myth," *Businessweek*, April 16, 2007, http://www.businessweek.com/smallbiz/content/apr2007/sb20070416_296932.htm.

The players in the NFL could want to use their income to enjoy a life of luxury. Something big that is desired by many people is a house. This could be construed as a sign that they have made it and are financially stable. The problem is that this is typically the largest asset that somebody owns. Because of the sizeable nature of the investment, it is not something the players would want to rush into when they don't have to. The players could possibly understand that there would be a tax advantage to doing this because the mortgage payments are, in fact, tax deductible whereas rent expenses are not tax deductible (giving them some implicit savings in tax). Although these implicit savings can be an effective way to reduce a tax expense, athletes should be reasonable while thinking about this. The mortgage is a permanent investment and with the temporary nature of the job of being NFL players, they should factor this non-monetary aspect into the decision. Although there would be savings, the athletes would be stuck making these payments for many years to come. With the assumption that the players would be in the league for three years, it is irresponsible to take out a mortgage and buy a house. They wouldn't want to have to deal with this when they have little-to-no income later. Another aspect of being in the NFL is the risk of having to move at some point if the players were to sign with another team. It would be difficult to deal with selling a house to cover these athletes' mortgages while they are worried about making another team or dealing with yet another mortgage. If renting, players would be able to deal with things on a month-by-month basis and not be constrained by these payments.

The reason that players are able to get these huge loans from the bank is that the bank would have no reason to doubt that the athletes would be able to follow through with their mortgage payments. From their perspective, they are receiving a huge amount of income and there is no reason to make an assumption that they would not be employed in the future. If the banks look a few years down the road to see how likely employment is, their chances could look the same as somebody in any line of work. In any line of work, in theory, employment could stop at any moment. With this superficial look at the income and the amount of risk, they would have no hesitation giving NFL players mortgages of people making around $400,000 a year. With all these funds at the disposal of the players, they could reasonably want to utilize the maximum amount.

These problems could absolutely result in the daunting task of paying mortgage payments on a large house even when somebody doesn't really need to have it. The athletes should take this into consideration when making the decision to get a house and save that for later on in life when they are more settled down. There should be no rush to make such a big investment and just because they can get this doesn't mean that they should. Renting is a much safer and reasonable alternative that should be explored.

College Degrees

Another large problem that would hurt the players after their time in the league is the fact that many don't have college degrees. This could hurt their wages for their next job and even their chances of having a job. Because all players have already been attending college (and most for free) it seems ludicrous not to finish it out and give them a better chance to succeed in their life after football. Also, the arguments that are usually seen devaluing a college degree cite the amount of loans that need to be taken out to get through. This argument would not apply to the people that have scholarships and not dealing with this financial burden.

People with college degrees typically do better (fiscally) than people that have attended college but left without earning a degree. According to the United States Department of Labor, people with college degrees made an average $53,000 in 2009 while people with some college and no degree earned $36,348.[40] This is an annual difference of almost $17,000. On a year by year basis, this difference becomes even more significant. Assuming a 6% discount rate, the amount of earnings over 10 years would come out to about $700,000 for people with degrees and about $480,000 for people with no degree. Although the athletes would not be investing all of the money that they earned, this number still shows that there is a significant difference between the earnings, even over a moderately short span like that. The difference would only get larger as time went on as well. Another problem involved is the unemployment rates for both groups. People with college degrees had an unemployment rate of 5.2% according to the United States Department of Labor's study and people with some college had an unemployment rate of 8.6%. The number shows that there is definitely a difference between completing and not completing college. Both the amount of money that is made and chances of employment will be greater with a degree.

With this knowledge, one would think that players would want to get their college degrees while it is not costing them any money to attend, but this is not the case. In a 2004 article, Dan Masonson, the NFL's corporate communications manager, said that only 46% of NFL players had graduated college.[41] This is truly a distressing number to hear. Although football players can have the mentality that they can always make it up

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[40] Department of Labor Statistics, "Education Pays…," *United States Department of Labor*, May 27, 2010, http://www.bls.gov/emp/ep_chart_001.htm.

[41] Chris Price, "NFL's Player Development Program helps players prepare for life after," *New Orleans CityBusiness*, August 30, 2004, http://findarticles.com/p/articles/mi_qn4200/is_20040830/ai_n10175672/.

later and finish school while still playing, this might not be the case. Because their careers can end at any time, it is not certain that players would actually be able to utilize the NFL's assistance for this. According to the Collective Bargaining Agreement, players need to have been out of high school for at least 3 years before they are eligible for the NFL.[42] This means that they would already have three years of college before being eligible to join the NFL. A program the NFL does offer is the Tuition Assistance Program[43], but making up the year (assuming it takes 4 years to complete college) could be difficult. A situation where athletes are cut towards the end of the first year wouldn't allow them to make up the entire year and would require them to pay for some college. A great example to follow is D'Brickshaw Ferguson, a former 1st round draft pick who has already been in the NFL for 5 years. He was interviewed by the Wall Street Journal's Market Watch and said that he is currently getting his MBA, an advanced degree. He talks of the importance of compounding interest and says he wants to be an entrepreneur after football.[44] This is the right idea as he utilized his degree from the University of Virginia and is already thinking of how it can help him later in life. What it all comes down to is that it would make sense for the players to take their degree while it comes without a financial burden.

The articles that do devalue the college degree that people get all cite the amount of loans that students are taking out. A study by Forbes magazine uses this tactic, citing the amount of student loans as an example of why going to school could very well not be worth it all. They talk about the piles of debt that have piled up and it is a daunting

[42] Collective Bargaining Agreement 2006-2012
[43] Collective Bargaining Agreement 2006-2012
[44] Market Watch, "Wealth Adviser: NFL Money," *The Wall Street Journal*, September 15, 2010, http://www.marketwatch.com/video/asset/wealth-adviser-nfl-money-2010-09-15

amount for a new college graduate.[45] Players in the NFL would not have to deal with this debt from their time at college. They have this gift and it would be a shame to waste it by deferring their school and paying to finish.

With all this in mind, it seems ridiculous that less than ½ of the players in the NFL have actually graduated from college. The earnings alone seem to make it worth it for people that just look at the basic numbers. When the real argument against getting a degree being something that doesn't apply is factored in, it comes down to being a no-brainer.

[45] Kathy Kristof, "The Great College Hoax," *Forbes*, January 14, 2009, http://www.forbes.com/forbes/2009/0202/060.html.

III. Solutions/Wealth Planning

How Much is Really Needed?

The question of how much is really needed has to be a factor. A good way to go about determining this is by examining how much other entry level positions are making. Careers in the NFL could be comparable to high paying jobs right out of college that require relevant experience. With this in mind, it is easy to look at other similar jobs and use their pay as a reasonable salary. Because players would know what they could otherwise be making, it leaves the rest of the money to do things with. It might cost them the life of luxury in the present, but it would absolutely pay off in the long run, which is more important. Another benefit to making less money is that a smaller percent of your income will go towards income taxes.

The salary of somebody in the NFL is significantly higher than the vast majority of people graduating college. With a starting salary of $310,000, the athletes are making more than most people will make at any point in their careers. Because the salary is so high, the question of how much is really needed comes up. Although people can live with low incomes, it would also be appropriate to at least enjoy some of the money that these football players are working hard for. Payscale posted an article about the median starting salaries for each major in college. The criteria were that it was taken for recent graduates with a bachelor's degree and they typically had two years of experience before entering the work force.[46] Examining this list is a decent way to find an appropriate number. The average of the entry-level of the top 10 mid-career median salaries comes

[46] 2010-11 College Salary Report, "Best Undergraduate College Degrees By Salary," *Payscale*, http://www.payscale.com/best-colleges/degrees.asp.

out to approximately $60,000. This number would be an appropriate number for what is "needed."

The benefit to having less income is that a smaller percentage of the athletes' money would be used to pay taxes. Looking at the average tax rates of $60,000 and $310,000 (in 2010) proves this point because the tax rates come out to be 19% and 28%, respectively. Not only is the percentage a big difference, but if players in the NFL have $310,000 of taxable income, they would actually be paying significantly more in taxes than the other $60,000 option, with the income tax expenses coming out at about $87,000. Anything that could be done to reduce this amount being paid to the government should be done. Another benefit to this approach is that it would force players to learn to set a budget and to figure out what they really do need. Instead of buying expensive cars or houses, they could be reasonable with the money and help themselves out later. This would be mirroring the MLB. When drafted, the players have to learn to set a budget and don't need to be concerned with all the flashiness of being professional athletes and this budgeting practice is a huge reason why they are in less financial trouble later on in life. Because this is really the first time that these players are responsible for their finances (because they were on scholarship throughout their college experiences), it is vital that they learn how to spend responsibly. One current problem that has arisen is regarding Dez Bryant, a first round draft pick, who is making well above league minimum. He seems to be spending money as if he will be making it forever. He, allegedly, "owes more than $850,000, not including damages or legal fees, from jewelry and tickets to sporting events purchased on credit, as well as unpaid loans."[47] This seems unreasonable and it doesn't appear like he has been spending his money in a well-budged fashion. This doesn't mean that it is too late for him if he were to start applying some financial planning tactics now.

Although players might think that this number that represents the amount of money that they "need" is too conservative and not enough (it represents about 1/5 of what they are guaranteed), it really isn't. Because there is this base, an amount that is investable and deferrable is established. It seems selfish to actually want all of the money at one time. By having this amount of money that is needed, athletes would be significantly helping their future selves and their future finances. Overall, it would be much more satisfying to have sustainable rates of income over a longer amount of time then to spend it all at once and be in financial trouble later.

Retirement Plan

The first tactic that NFL Players can employ to reduce their taxes that they are paying is utilizing the NFL's qualified defined contribution plan. This can reduce their taxable incomes and help to reduce the amounts of taxes they are paying. It can also allow the players to have a cushion to fall back on using the 10% penalty rule for taking out cash from their retirement accounts.

The NFL uses a qualified defined contribution retirement plan called the Second Career Savings Plan.[48] Because it is a qualified plan, members can contribute parts of their incomes to it and defer the taxation on the parts that are in the fund. Due to the fact that the players are be being taxed so heavily on each extra dollar they receive, they

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[47] Calvin Watkins, "Adviser: Dez Bryant wants to pay debts," *ESPN*, March 30, 2011, http://sports.espn.go.com/dallas/nfl/news/story?id=6273648.

[48] Collective Bargaining Agreement 2006-2012

should be sure to contribute as much as possible to this plan. The maximum amount that can be contributed to a defined contribution plan, according to updates to the Internal Revenue Code, is $49,000/year.[49] The NFL also has a matching policy that will match contributions with their own double contribution up to a certain threshold.[50] The difference can be seen in table 3.

Table 3. Taxable Income with Defined Contribution Plan

	2009	2010	2011
Old Taxable Income	310000	400000	490000
Total Contribution	49000	49000	49000
NFL's Contribution	22000	24000	26000
Player's Contribution	(27000)	(25000)	(23000)
Adjusted Taxable Income	283000	375000	467000
Income Tax Expense	87442.5	117643.8	164677.6
Net Income	222557.5	282356.3	325322.4
Average Tax	0.28	0.29	0.34

Table 3 illustrates the deduction in taxable income that occurs when a players in the NFL defers the maximum amounts to the qualified plan. When this income is being deferred, the players are also deferring the taxes collected on it as well. By doing deferring the taxation, the players would be reducing their overall income tax liabilities and creating cushions to fall back on with their defined contribution plans.

The retirement plan would not be entirely for the athletes' retirements. Instead, it would be used as a safety net for financial troubles that come along. It can be a safety net because, according to the Internal Revenue Code, if a taxpayer takes out an early

[49] 26 USC 415, 2011
[50] Collective Bargaining Agreement 2006-2012

withdrawal, “the taxpayer’s tax under this chapter for the taxable year in which such amount is received shall be increased by an amount equal to 10 percent of the portion of such amount which is includible in gross income.”[51] This means that the players would be accepting a 10% penalty on the withdrawals from the retirement plan. The reason that this penalty would be a good thing is that players could elect to take it in a time that they had a very low taxable income, meaning that whatever portion of the $147,000 ($49,000 x 3 years) that is taken out would be taxed in a much lower bracket still than the 39.6% that it would be taxed at in 2011, for instance.[52] Because this account can be drawn upon at any time, it really is a liquid asset and now as frozen as some players might think. This little assistance can absolutely add up and help football players avoid financial trouble if they are in a pinch. If the pinch does happen to turn into distress, another advantage to having the maximum amount of money in a retirement account is to have some funds that cannot be touched by bankruptcy proceedings. As discussed in the bankruptcy chapter, these are exempt from your creditors.[53]

By effectively utilizing a qualified retirement fund, the income tax expense over the three years would be about $27,000 less than before. Even this small tactic makes a significant difference. Although it doesn’t have a material affect on the average tax rate computations, one can see that it does start to alter the numbers.

[51] 26 USC 72, 2011
[52] PricewaterhouseCooper, 2011 U.S. Master Tax Guide, (Chicago: CCH, 2010), 29.
[53] Bankruptcy Basics

Table 4. Adjusted Salary and Income Tax

	2009	2010	2011
Old Taxable Income	310000	400000	290000
Income tax expense	87442.5	117643.8	164677.6
Net Income	222557.5	282356.3	325322.4
Average tax	0.28	0.29	0.34
Adjusted Taxable Income	283000	375000	467000
Adjusted Income Tax Expense	78532.5	108894.3	155569.6
Adjusted Net Income	204467.5	266105.7	311430.4
Adjusted Average Tax Rate	0.28	0.29	0.33

Although 2011 is the only year with an entire percentage change, the maximum contributions have started to get the ball rolling and finances will only improve as more tactics are put into place.

NFL players can see that utilizing a tool that is at their disposal can be of much assistance. The fact that the NFL will match contributions, which is essentially extra income, gives the athletes even more reason to partake. By using the 10% penalty, the players can ease the transition to the next step in their lives after the NFL and absolutely make it the “Second Career Savings Program” that it is called.

Deferred Compensation

Another trick that players in the NFL should use is deferring the maximum amount of compensation that they can, which could give them a reasonable amount of income for a longer period of time. Players would use an unfunded arrangement with the NFL in order to not run into problems with their retirement accounts that they are already utilizing. Using this would result in a big difference with the taxes paid and would give the athletes smoother, steadier flows of income. Also, when the deferred compensation is finally realized they can further defer taxation on it through use of an Individual Retirement Account.

According to the Collective Bargaining Agreement, players can defer up to ½ of their compensation.[54] Because players in the NFL would already be deferring the maximum amount possible into their defined contribution plan, this would leave the rest of the ½ of their salaries to defer. Due to the fact that the players should be under the impression that they will be playing for 3 years, they should defer the compensation 3 years each time they receive it. What this will do is allow them to have a steady income stream for 6 years instead of a very high income for 3 years. Table 5 shows the difference in taxable income and income tax expense when this compensation is deferred.

Table 5. Net Income after deferring maximum amount of compensation

	2009	2010	2011
Starting Income	310000	400000	490000
Retirement Plan Contribution	-27000	-24000	-23000
Deferred Compensation	-182000	-224000	-268000
Adjusted Taxable Income	155000	200000	245000
Adjusted Income Tax Expense	37120	51116.75	72487
Average Tax Rate	0.24	0.26	0.30

This shows that the average tax rate in the highest tax year is now 30%, which is down from 34%. Also, the tax rates for the other years are down from 3-4%.

[54] Collective Bargaining Agreement 2006-2012

In order to defer this compensation, there would have to be an unfunded agreement, meaning the athletes would be acting as unsecured creditors.[55] This is a risky proposition, but if the players assume that the NFL will not go bankrupt, then they would be safe. According to PricewaterhouseCooper's 2011 U.S. Master Tax Guide, "the amount promised is not includible in the employee's gross income until it is received or made available."[56] This excerpt means that players would be able to defer the income and have it unrecognized until agreed upon. The reason they would have to have an unsecured promise is because if the agreement was represented, for instance, by a note, then the deferred compensation would be considered part of their retirement plans and would have to be set aside in a trust.[57] Because the players would not want this, they would have to be happy with the unfunded agreement.

The rest of the money that is being deferred should not all be received as taxable income in whichever year that it is being received. Because having a next employer with a retirement plan is not necessarily a guarantee, this money should be put into an Individual Retirement Account. A traditional IRA's contributions are fully deductible up to the maximum amount for a single individual who is not contributing to another retirement plan, and this should be taken advantage of. Whenever possible, football players should put the maximum contributions into this Traditional IRA. The dollars contributed to this are tax-free while they accumulate interest and are not actually taxed until money is withdrawn from the account. Table 6 shows how doing this will the deferred income that is received through 2012-2014 (assuming 2010's income tax rate)

[55] 2011 U.S. Master Tax Guide, 265
[56] 2011 U.S. Master Tax Guide, 265
[57] 2011 U.S. Master Tax Guide, 265

Table 6. Net Income 2012-2014

	2012	2013	2014
Deferred Compensation	182000	224000	268000
IRA Contribution	-5000	-5000	-5000
Adjusted Taxable Income	177000	219000	263000
Income Tax Expense (2010 Rate)	43526.75	57386.75	71906.75
Adjusted Net Income	133473.3	161613.3	191093.3
Average Tax Rate	0.25	0.26	0.27

Table 6 shows that the average tax rate will not go above 27% on the deferred income if the players use this tactic and defer the maximum amount through their IRA's.

Using the tactics, the income taxes paid over the 6 years is about $36,000 lower than what would be paid in half the time if no tactics were used. The last step for the players in the NFL should be to learn to invest and, with some basic tips, can help to raise their net worth.

Investments

To help improve the players' net worth, they should take active roles in investing, using the surplus over what was deemed as income necessary for everyday life to invest. Something that the players would not want to do is to just hold this income as cash and not begin to increase their overall values. By taking an active investing approach, players would receive some return and get some practice in the capital markets as well. A great thing they could invest in is Section 1244 stock, which gives the players the capital gains rate and the ordinary loss rate. There is no downside to doing this, and the athletes just need to know what it is to make sure that their investment falls under this category.

Because it was assumed that an acceptable entry level salary would be $60,000, the rest of the first year's income would be $95,000, which is the amount that the players should invest with. For the salaries for the next two years, it would be reasonable for the players to adjust their spending money to reflect the same percentage change that their original salary would be increasing at, which is 29% and 22.5%, respectively. This would put their spending money at around $75,000 and $95,000, leaving money for investments at $125,000 in 2010 and $150,000 in 2011.

The best thing to do would be to start investing as soon as possible and to earn interest, raising their net value. Something good to invest in would be stocks. There is a good amount of volatility in stocks but, over time, the return on stocks seems to be superior to any other type of investment. Another advantage to this is that the players would not be putting their trust in an individual person but, rather, the market as a whole. The S&P 500 has earned around a 10% annual return and this seems to be a great place to put your money if the players wanted to take a passive investment approach.[58] Another way to earn interest could be to invest in an established hedge fund or mutual fund, which would allow someone else to make the investment decisions for the athletes and take some pressure off. Although utilizing a hedge fund could be a great approach, the players could also want to take a more active approach in their finances and gain exposure and (hopefully) try to beat the market.

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[58] "Monthly and Annual Returns, Standard & Poors," *Standard & Poors*, www2.standardandpoors.com/spf/xls/index/MONTHLY.xls.

Of course, with every investment, the amount of risk that the athletes are willing to take needs to be evaluated. Players should be educated on the important of diversification as a start. Unsystematic risk is the risk that is not part of the market as a whole, and you can get rid of this by having a diverse portfolio. Having a diverse portfolio doesn't mean having a lot of stocks but, rather, having stocks in different types of business. Having a stock in tech, food services, ship building etc. would be diverse whereas having 20 stocks in retail would not be. Players would only be able to diversify away the unsystematic risk, but the risk from the market would always be a factor. This is something that the players in the NFL would have to be comfortable with. An alternative to an investment in stocks could be investing in treasury bonds. As of March 2011, 10-year treasuries are trading at about a 3.5% interest rate. These are assumed to be risk free meaning that athletes would absolutely get the return from it. Any return above this would be the risk premium that the players would be assuming. By assuming the risk premium, the players would be taking on more risk hoping for higher returns. Again, there is no absolute safe investment in stocks.

If football players have a successful return on their investments and want to cash out, they would want to make sure that it falls under the capital gains tax rate. This means that this gain would not be taxed at the typical income tax rate but it will, instead, be taxed at a preferential capital gains tax rate. In order to get the full benefit of capital gains, the athletes would to hold the investments for over a year. With this long-term capital gains[59] rate, the gain would be taxed at either 15% (if the players' income tax rate

[59] 26 USC 1222

is typically above 15%) or it wouldn't be taxed (if their income tax rate is typically 15% or below).[60] This preferential treatment is a huge benefit and should not be overlooked.

The disadvantage to the capital gains is that the losses would be treated as capital losses, meaning that the loss would not be fully deductible against the holders of the capital loss' income. This is a difficult situation because investors would want to maximum amount of a loss to deduct against their taxable income as a shelter. This is where section 1244 stock would be an advantage. It allows the players to not only receive the capital gains rate, which would be preferable on gains, as well as deduct their losses as ordinary losses. It is the best of both worlds and there is no downside to this. Section 1244 stock is intended to have people who have suffered losses at least receive some positive from those losses and to be able to shield their other income from taxes in the short term. An individual can use up to a $50,000/year ordinary loss with section 1244 stock.[61] This means that if they have over $50,000, they should only elect to use the amount they can deduct in the year and defer the rest of the losses and not waste this tax shield.

To qualify as Section 1244, a stock has to be that of a small business corporation. This means that the corporation cannot receive more than $1,000,000 in compensation for the equity stake. It also needs to issue the stock in return for money or other properties (not stock or securities). The last requirement is that, during the last 5 taxable years, the corporation must "(derive) more than 50 percent of its aggregate gross receipts from sources other than royalties, rents, dividends, interests, annuities, and sales or exchanges

[60] 26 USC 1
[61] 26 USC 1244

of stocks or securities."[62] Finding a corporation that meets these qualifications would be in the players' best interests.

To put into perspective how much help investing in either stocks or bonds can help, examine Table 6. It illustrates how much players' net worth would increase based on the return they could get if they invested all of their non-living expense money.

Table 6 Portfolio in 2012 with 0%, 3.5%, and 10% investment

	2009	2010	2011	2012
No Investment	95000	220000	370000	370000
3.5% Return	95000	223325	381141.4	394481.3
10% Return	95000	229500	402450	442695

By setting aside money to invest with, the players would be taking a step in the right direction in planning for their futures. It would be in the athletes' best interest to decide the amount of risk that they are willing to take on and then to invest appropriately. Also, every day that investments are passed up is a day that they can't be earning interest. Players need to realize this and be proactive about their finances. This is where their planning would not only be able to help them out if they were in financial trouble, but also in retirement as well. The players' net worth while investing and earning return would only be higher every year in comparison to no investment.

[62] 26 USC 1244

V. Conclusion

It has now been made clear that there are absolutely steps that players in the NFL can take to prevent this financial trouble shortly after their playing days come to a close. Not only can they avoid bankruptcy, but they can find a good career afterwards and have good cash flows coming in on a consistent basis. By understanding the factors that cause their financial distress, they can effectively plan around them. After avoiding these factors, taking the next step in planning for the future would be the best move that the players could do.

The 78% of NFL players made them the most difficult league to deal with. It was much easier for them to go bankrupt than players in the NBA and MLB. This ease in which the players go bankrupt is because they are in the league for less time overall. Because they are natural optimists, they would expect to be there for longer. The MLB forces their players to learn how to budget by giving them a small starting salary and moving them around. There is no way the players can buy elaborate things. The NBA, on the other hand, gives their players more money and has a longer average career, which means that it would take longer to bankrupt them because they have accrued more money. Although bankruptcy is there to help and to let you continue to live, it still does set you back. People that have declared will have to play catch-up to be at the same level as people who have never been forced to declare.

The biggest reason that these problems come up is the fact that players don't realize that they will have such a short career. With their positive thinking, there is no reason for them to believe they would fail. Instead, they should assume that they will be an average player, which would indicate that they will only be playing for 3 years and then use the money they make to help them out later in life instead of just making the assumption that they will spend 20 years in the NFL. Professional football careers can also be ended at any moment with an injury. This means that even if athletes' talent is not what is holding them back, there is still a good chance that they could get hurt and not be able to play. Concussions are only more and more prevalent as the years go on. This is a scary injury to have and a bad one could be the last that players should have.

Also, with the high salary that the players are receiving, they will be paying very high income taxes. While there may be a theoretical argument that these taxes aren't fair for someone that will only have this income over 3 years in comparison to someone that makes it every year of their life, the fact is that they still need to be paid. Because the taxes are so high (30% of income earned over the 3 years), it is the football players' responsibility to use planning techniques to counteract this and to put themselves in the best possible situation.

A very important thing to remember is to know who to trust and that it is vital that NFL players separate their finances and their friendships. It is not insulting to not want to invest in someone's money making idea. Players have the upper hand in this situation and should use this to better themselves and to start making returns on their money. If the players can realize that there is no such thing as a "sure thing" and everything has a risk of failure, it would be a huge help. The athletes should not try to help someone out or put all of their eggs in one basket. They should remember the distinction between systematic and unsystematic risk, and diversify accordingly.

Another problem that the players should avoid is not taking out a huge mortgage. This ties back in to the idea that there won't actually be this huge stream of income for an unidentified number of years. Because the home is typically the largest asset that people own, it should not be a venture that should be taken lightly. Just because the bank would allow players with this income to take out a big mortgage doesn't mean that it is right. The bank would have no reason to doubt that the income would come in year after year. Instead, the players should take the responsibility and rent, waiting to buy their houses for a time when they are settled into an area and have their second careers.

Every single player in the NFL should have no excuse for not earning their college degree while they have the chance. They are given an opportunity to get their degrees for free and it is irresponsible not to take advantage of it. With the knowledge that people with college degrees earn more money than people with only some college experience, athletes should do whatever they can to make sure they utilize the opportunity while it is still there. Putting it off until the summers they are playing or the years after would not be the same. There is a risk that they could be out of the league before they finish schooling, meaning they would need to pay in order to complete it all. Even if players were being proactive with taking summer courses and had three year plans, they could get injured and not have this long term plan come to fruition. The rationale just comes down to the safest thing for the players to do would be to actually get their degree while they have the chance to do it for free.

How much is really needed should be a factor in how much the players in the NFL spend. Using the amount that other college graduates are using would be a great baseline for these players to use because the other college graduates are typically paying significantly less in taxes and getting by just fine. Players could budget how much they need better and not waste all the money. As a result of this action, they might have a 3 year period that is less extravagant than many players', but be better off over time.

To minimize the taxation on their income, the players need to utilize the retirement plan that they are given, deferring the $49,000/year maximum into their deferred compensation account. This deferral allows them to reduce the taxable income in the year that it is earned until the year it is realized. They can also use this account as a safety net, having all the money in it at their disposal until they need it, when they could use the 10% penalty on their withdrawals. This shows that it really is a liquid investment and not as rigid as many people would think and it is where one can see the tax savings start to add up, as the players' contribution is deductible and the NFL will also add money to the account as well up to a certain threshold.

The deferring compensation is where the NFL players have the most substantial decrease in income tax expense. The athletes need to defer the entire amount that they could possible do, and to do it all as an unfunded agreement. This will allow them to have a much steadier flow of income and not interfere with their already maxed-out retirement plan that they are utilizing. With deferring compensation, they would be smoothing out their income streams and keeping a more reasonable amount of money on hand and there would be less to spend on things that are unnecessary.

By having an amount of money that is deemed necessary for the players, there would be plenty left over to start investing. They would be able to earn a positive return on the money they are receiving and be able to ultimately better their futures. The athletes would want to decide what kind of risk that they were willing to take to get their desired return. They also need to remember that diversification would be very important in order to get rid of the unsystematic risk involved. Regardless of the type of investment that the players think is right for them, they need to make sure that he is utilizing the long term capital gains rate. It would also be very beneficial, if possible, to utilize the section 1244 stock to not only get the capital gains rate, but to get the option of ordinary losses as well.

By understanding the reasons that other players have gone bankrupt and have had serious financial trouble, players in the NFL can plan going forward by avoiding some of these things. They can understand how to budget and what to do with their money. Something that the athletes could be interested in is the amount they are not required to receive in the current year and can have going forward. By looking at both situations, what football players have to lose by not taking these steps is their finances and going into bankruptcy. With the strategies being implemented, there would really be nothing to lose other than a slightly more extravagant lifestyle, which could finally be enjoyed if, hopefully, the players did beat the odds and stayed in the NFL for longer than the three seasons.

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