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The bankruptcy rate for professional athletes just a few years from retirement is extremely high. To take one example, 60% of NBA players are reported to become bankrupt within five years of retirement from the league. This is a league with average compensation \$5 million per year.

I am interested in applying my Sustainable Wealth (SW) idea to the case of the professional athlete. The key idea of the SW plan is the spending rule that says you can spend each year 3% of total wealth which includes the discounted value of future earnings ("human capital"). For professional athletes, this human capital is quite large. Consider the NBA player with a six year contract paying \$9 million per year. After tax, this is about \$5 million per year and the present value is just a bit less than \$30 million. The base SW consumption rule is to spend 3% of \$30 million or \$900,000 per year. This is based on the assumption that a reasonably conservative investment strategy can earn a 3% real after-tax return, on average. The idea of the SW plan is that, regardless of age, the athlete can comfortably spend this amount (adjusted upward for inflation) for the rest of his life.

\$900,000 is certainly a lot of money to spend each year, but from one point of view it is extremely conservative. If you make \$5 million after-tax and spend just \$900K, you have a savings rate of 82% (savings is after-tax income less consumption, and the savings rate is savings divided by income, or $\$4.1M/\$5.0M$). Few self-respecting financial planners would tell a client to save 82%, and if they did what client would accept that advice? Suppose a very conservative advisor recommended spending just 50% of after-tax income, or \$2.5M. That seems doable, right?

Answer: wrong. \$2.5 million represents 8% of total wealth and will dissipate wealth in just a few years. This suggests the essence of the dilemma for the professional athlete, or any other of the top 1% income earners who only earn that high income for few years. If you are going to provide for 60 or 70 years of consumption with only a few years of earnings, you have to save a very high percentage of that income.

Another interesting feature of very long horizons is that the probability of plan failure increases with the length of the horizon. This is because the volatility in ending wealth rises over time. So, even though you are spending a fraction of initial wealth that equals your expected annual rate of return, over a 70 year period there is a non-negligible chance of plan failure. Even the 82% savings rate is not high enough to ensure success!

If the athlete were my client, I think I would recommend a variant on the SW plan, namely the 1% Ratchet Rule. This rule says that you can spend each year 1% of the maximum value of your portfolio. That is, each time your portfolio value increases you ratchet up your spending, but you do not lower spending when the portfolio value falls. Coupled with a conservative investment strategy, the 1% Ratchet Rule practically ensures that the athlete never runs out of money. Additionally, there will be a pretty good chance that the athlete's wealth will rise over time to the point that he can buy the team and become the owner. But, the guy would have to constrain first year spending to \$300,000 and endure the ignominy of having a 94% savings rate ($\$4.7M/\$5.0M$).

While this plan is simple in concept, it is not easy to implement. The famous athlete is almost surely under great pressures by friends, family and associates to spend lavishly and engage in dubious investment schemes. The huge bankruptcy rate for former athletes is likely to persist due to the difficulty of combating these pressures.