Not for Long: A Case Study of a Professional Athlete Who Fell from Riches to Rags

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Abstract

This case study uses a fictional professional athlete to examine the financial challenges that many professional athletes encounter. The fictional athlete, at the center of this case, was enjoying a successful career in the National Football League while making millions of dollars. After only four years of signing a contract with a pro football team, his career ended abruptly with a severe injury. To make matters worse, the athlete, who had handled his new-found riches in an extremely irresponsible way, went from being a star with wealthy potential to being jobless and penniless. Students should gain insight on the importance of financial responsibility, especially with professional athletes, as their career longevity is so uncertain. By researching, the students will find this is far too common among professional athletes. They will also be able to analyze the data provided to determine the financial mistakes this athlete made.

Case Study

Background

RW Jacobs is a first-year rookie for the Orlando Ospreys. His dream since childhood of playing professional football has finally come true, but it has not come easy. He has been playing football since the second grade. He received a college football scholarship and played all four years, breaking several university and conference records. In addition to being a star athlete, RW was a superb student. He majored in political science and made the Dean's list every semester. He graduated Cum Laude.

RW's life changed instantly when he signed with the Ospreys. He went from being a small-town kid to being a professional athlete making 3.5 million dollars in a four-year contract. In addition, his signing bonus was a quarter of a million dollars. RW is determined that he will be the kind of team member who will be valued and respected. He wants to play hard on the field while also having a meaningful life during and after his ball playing days.

Three months ago, RW started spring training camp. He quickly realized that he made the right decision by joining the Ospreys. They are a strong team and he likes the culture and dynamics. Joe Rawlins, a wide receiver, became one of his first friends. He had been with the Ospreys for four years and, as one of their most valuable players, he seemed to have it all. Joe began with a signing bonus of $500,000. He has a salary of 1.5 million dollars per year and an additional one million dollars in endorsements. He is such a happy, fun loving guy that it is hard for anyone not to like Joe. Unfortunately, Joe tore his ACL last week and has just been forced into early retirement. RW is sorry that Joe's days of playing in the pros are over and will certainly miss being one of his teammates. Although Joe won't be playing anymore, RW is sure that Joe is set financially based on his salary and endorsements. RW wouldn't be surprised to hear that Joe has started an entrepreneurial venture as he certainly has the money and personality.

Last night when RW was walking to his car after practice, the head defensive coach, Mac Washington, was walking out too. They decided to grab a beer together before going home. RW was shocked to hear that Joe was not in the situation he thought. Mac told him that Joe had confided in him that he was devastated his football career was over. He couldn't imagine not playing anymore and even more concerning was his financial situation. Joe has virtually no savings. After making millions of dollars, Joe's current total savings is a mere $20,000. He had no idea his career would be cut short and was planning to begin saving more of his salary soon. Mac, however, was not surprised by Joe's situation. He'd seen similar stories all too many times in his career. He had watched Joe over the past years as he lavishly spent money and made a very poor investment decision. Although all professional athletes are offered a financial workshop during the team's orientation, it seems that Joe didn't heed the advice he was given. Instead of securing a relationship with a reputable financial advisor, Joe decided to seek financial advice from his cousin Jimmy, who was a business major in college. Jimmy convinced Joe to invest in a Fijian gold mine. Jimmy told Joe that it he would double his investment within two years and there was absolutely no chance of loss. Within three years, the Fijian gold mine had gone belly-up and Joe lost his entire $1,000,000 investment. His family and friends flocked to him for presents and favors and Joe never said no. It saddens Mac to see that Joe will have a difficult time getting himself on the right track.

RW could not believe what Mac was saying. Joe was someone RW looked up to and thought had it all. A first-string athlete, a bigger than life personality and a multimillion-dollar salary. How could it possibly have gone so wrong for someone like Joe? Even more importantly, RW commits to himself that he will not repeat Joe's mistakes. If only he knew what those mistakes were!

RW has come to you for help with determining what mistakes Joe made and for advice on how he can avoid making the same mistakes. Use Appendices A and B to inform your response.

Teaching Notes

This case study uses a fictional professional athlete to examine the financial challenges that many professional athletes encounter. The fictional athlete, at the center of this case, was enjoying a successful career in the NFL while making millions of dollars. After only four years of signing a contract with a pro football team, his career ended abruptly with a severe injury. To make matters worse, the athlete, who had handled his new-found riches in an extremely irresponsible way, went from being a star with wealthy potential to being jobless and penniless. Students should gain insight on the importance of financial responsibility, especially with professional athletes, as their career longevity is so uncertain.

This case is appropriate for the teaching of undergraduate and graduate sport management students in courses on sport finance and general sport management. Professors should use this case to illustrate to students the major financial challenges professional athletes face and the mistakes they can make. An awareness of the financial pitfalls that many professional athletes experience will help those advising professional athletes find ways to help them be financially responsible. Students can research to find that, although this is a fictional case, the scenario has happened all too frequently in professional athletics. The case includes income statements and balance sheets for students to analyze and track the financial position of the athlete during his four years of play. Once students analyze the data, they will be prepared to address the issue at the center of the case – how a professional athlete making millions can be in financial demise after four years. Ultimately, students will discuss how professional athletes need to realize they are an injury away from the end of their careers and, without responsible financial behavior, they could also be a day away from being broke.

A key message for students reading the case is the importance of seeking advice from a Certified Financial Planner (*CFP®).* Not everyone who offers financial advice possesses financial expertise. This is why it is important for individuals to seek a Certified Financial Planner (CFP®) when looking for financial advice. The CFP® designation is a formal recognition of expertise in the areas of financial planning, taxes, insurance, estate planning, and retirement. These professionals have met a high standard of rigorous training, testing, and experience. As opposed to many other kinds of financial advisors, these professionals are held to strict ethical standards to protect the consumer. Thus, advisors with the CFP® designation are far more likely to be both competent and ethical than other financial advisors. Please see "Consumer Guide to Financial Planning" published by the Certified Financial Planning Board (2019) for more information.

To contribute to students' understanding of concepts related to the case, instructors could direct students to read the following articles:

Araton, H. July 19, 2011. Once-celebrated recklessness leads to Dykstra's financial fall. The New York Times. Retrieved from https://www.nytimes.com/2011/07/20/sports/baseball/the-financial-fall-of-lenny-dykstra.html on July 26, 2019.

Osborn, K. August 13, 2015. 10 Insanely rich pro athletes humbled by financial ruin. Money. Retrieved from http://money.com/money/3983997/famous-athletes-bankruptcy/ on July 29, 2019.

Khatchaturian, A. February 29, 2012. The 9 most financially irresponsible players in NBA history. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/1085063-the-9-most-financially-irresponsible-players-in-nba-history#slide0 on July 17, 2019.

Torre, P. March 23, 2009. How (and why) athletes go broke. Sports Illustrated. Retrieved from https://www.si.com/vault/2009/03/23/105789480/how-and-why-athletes-go-broke on August 1, 2019.

Statista. April 30, 2011. Average playing career length in the National Football League (in years). Retrieved from https://www.statista.com/statistics/240102/average-player-career-length-in-the-national-football-league/ on August 5, 2019.

Bell, J. May 4, 2019. Opinion: NFL really means Not For Long, so rookies, here's advice on reality of league. USA Today. Retrieved from https://www.usatoday.com/story/sports/nfl/columnist/bell/2019/05/04/nfl-means-not-for-long-rookies-learn-harsh-reality/1100456001/ on July 1, 2019.

Kerns, M. September 28, 2011. Steve Slaton further proves that NFL stands for Not For Long. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/869659-steve-slaton-further-proves-that-nfl-stands-for-not-for-long on July 3, 2019.

Learning Objectives for the case study include the following:

1. Examine financial challenges pro athletes encounter.
2. Consider the career longevity of a professional athlete in general and a professional football player specifically.
3. Demonstrate an understanding of the financial statements by analyzing the situation.

4. Explain the importance of "loss of potential earnings" insurance.
5. Consider why a financial advisor could be beneficial (and likely essential) for a professional athlete.

Overview

This case study is designed to teach students about the importance of financial planning for professional athletes. After studying this case, students should have an understanding of the financial choices that professional athletes face and the repercussions of making the wrong choices. Before beginning the case, it would be beneficial for students to research the financial challenges and pitfalls of professional athletes. They may also use sources to determine the average amount of time a football player plays professionally. This research should lead students to several examples of professional football players whose careers ended prematurely and several examples of professional football players who have made very poor financial decisions. With some preliminary research completed, the students should then be ready to focus on the situation in the case. What happened to the athlete in the case and what decisions did he make that resulted in his financial demise? After reviewing the financial statements, students should be able to see that an individual with a multimillion dollar salary can still have a negative net worth. Students should consider how the scenario could have been different if the athlete had used a professional financial planner. Spending beyond his means, neglecting to buy the appropriate amount of "loss of potential earnings" insurance and investing in an extremely risky investment could have been avoided with the expertise and guidance of a professional financial planner.

In concluding, students should outline how they would advise the rookie athlete who was shocked and saddened by what happened to his teammate. Instructors should encourage students to do research about Certified Financial Planners® and how beneficial it would be for professional athletes to start on the right financial path by seeking the expertise and help of a CFP® Professional.

Discussion questions with suggested responses and citations for additional reading for students are listed below:

1. Explain in your own words what has happened to Joe? Do a little research to find and list several professional athletes who have fallen into financial distress during their careers or within a few years after retirement.
Joe, like many pro athletes, did not seek guidance from a professional financial advisor. felt that he would play for many years without injury and, therefore, did not obtain the appropriate amount of disability insurance. He spent too much and saved too little. In addition, without a financial advisor with expertise, he made an extremely inappropriate investment that failed. Please see the following articles for more information about professional athletes who have faced financial ruin.

Khatchaturian, A. February 29, 2012. The 9 most financially irresponsible players in NBA history. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/1085063-the-9-most-financially-irresponsible-players-in-nba-history#slide0 on July 17, 2019.
Osborn, K. August 13, 2015. 10 Insanely rich pro athletes humbled by financial ruin. Money. Retrieved from http://money.com/money/3983997/famous-athletes-bankruptcy/ on July 29, 2019.

2. Why do you think professional athletes have a difficult time with their finances?
Many athletes lack fundamental financial literacy skills. They have very little experience in and knowledge of budgeting and managing money. Making a huge salary creates a belief that they can never run out of money. They buy everything they "want" regardless of "need." Family and friends all want a share of their riches and it is difficult for the athlete to say no. Professional athletes are also susceptible to individuals who promise to double or triple their money only to make risky investments that fail. See the following article.

Torre, P. March 23, 2009. How (and why) athletes go broke. Sports Illustrated. Retrieved from https://www.si.com/vault/2009/03/23/105789480/how-and-why-athletes-go-broke on August 1, 2019.

3. What is the average amount of time a professional football player plays in the NFL?
The average amount of time is 3.3 years. Please see the article below about the length of a career in the NFL:

Statista. April 30, 2011. Average playing career length in the National Football League (in years). Retrieved from https://www.statista.com/statistics/240102/average-player-career-length-in-the-national-football-league/ on August 5, 2019.

4. What do some jokingly say that the NFL acronym stands for?
Referring to NFL as "Not For Long" was first used by Houston Oilers head coach Glanville while criticizing a referee who he felt made a bad call. Since then, "Not For Long" has frequently been used to refer to players, not officials. The average career in the NFL is 3.3 years and, thus, it can be said that football players are most likely playing "Not For Long." Please see the following articles about "Not For Long":

Bell, J. May 4, 2019. Opinion: NFL really means Not For Long, so rookies, here's advice on reality of league. USA Today. Retrieved from https://www.usatoday.com/story/sports/nfl/columnist/bell/2019/05/04/nfl-means-not-for-long-rookies-learn-harsh-reality/1100456001/ on July 1, 2019.
Kerns, M. September 28, 2011. Steve Slaton further proves that NFL stands for Not For Long. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/869659-steve-slaton-further-proves-that-nfl-stands-for-not-for-long on July 3, 2019.

5. Joe trusted the advice of his cousin Jimmy. Could Joe's financial situation be different if he had instead used a Certified Financial Planner® Professional?
Not everyone who offers financial advice possesses financial expertise. This is why it is important for individuals to seek a Certified Financial Planner (CFP®) when looking for financial advice. The CFP® designation is a formal recognition of expertise in the areas of financial planning, taxes, insurance, estate planning, and retirement. These professionals have met a high standard of rigorous training, testing, and experience. As opposed to many other kinds of financial advisors, these professionals are held to strict ethical standards to protect the consumer. Thus, advisors with the CFP® designation are far more likely to be both competent and ethical than other financial advisors.
Certified Financial Planners could have helped Joe by helping him avoid bad investments. They would have helped him save money and have proper insurance

policies in place so that he would not suffer a dramatic decrease to his standard of living after his injury. They could help him minimize the amount of taxes that he pays and prepare for his post-athletics career. In summary, Joe would have been prepared to continue living his life the way he likes despite the unexpected end of his athletic career. Please see Consumer Guide to Financial Planning published by the Certified Financial Planning Board (2019).

6. Look at Joe's income statement and determine if he has had a surplus or a deficit during the past three years.
To calculate a surplus of deficit on the Income Statement you subtract the expenses from the income.

   Year 2016: He has a surplus of $82,100
   Year 2017: He has a deficit of $119,300
   Year 2018: He has a deficit of $278,750

7. Does Joe have a problem with income or expenses? Which accounts seem to be too high?

   After calculating the surplus and deficit in question #6, we see that Joe has a definite problem with expenses. He makes plenty of income to live comfortably while saving for the future; however, Joe has a major problem with "entertainment". He also has dug himself into a financial hole by owning two homes and three cars. Real estate and automobiles can be expensive to buy and cost a lot to maintain (insurance, routine maintenance, etc.).

8. Explain net worth. Look at Joe's balance sheet and determine his net worth for the past three years. How can someone with a high income and many assets not have a high net worth?
Net Worth is calculated by subtracting liabilities (what one owes) from assets (what one owns). Wealth of an individual is measured by net worth not by assets owned. A positive net worth means that an individual has more assets than liabilities, which is good. A negative net worth means an individual has more liabilities than assets, which is not the way to become financially independent.

   2016: Positive Net Worth of $155,416
   2017: Positive Net Worth of $560,955
   2018: Negative Net Worth of $504,465

   By 2018 Joe's Net Worth decreased by over a million dollars. Joe may believe he is wealthy because he owns a lot of assets; however, he is not wealthy. Most of his assets have been purchased with debt. Also, he has too many depreciating assets such as automobiles. They decrease in value over time and this does not build wealth.

9. What is "loss of potential earnings insurance"? Why do athletes complain about it?
Loss of potential earnings insurance is used by athletes to replace their income if they unexpectedly lose their ability to play their sport due to injury. It would dhave helped Joe because it would have replaced much of his lost income after his injury. Athletes complain about buying this insurance because it is quite expensive for h tem. The higher a person's income, the more expensive the insurance becomes. Since most

professional athletes are paid very highly, the insurance tends to be very expensive. Despite this expense, it is essential for every athlete to have this insurance, as physical injuries are extremely common among athletes who compete at such a high level. See Jonathan Berr's (2014) article.

Berr, J. May 16, 2014. Most NFL players don't buy disability insurance. CBS News. Retrieved from https://www.cbsnews.com/news/most-nfl-players-dont-buy-disability-insurance/ on August 10, 2019.

10. What would you suggest to RW so he does not end up in the same situation as Joe? *RW should find a Certified Financial Planner (CFP®) whom he can trust and with whom he can build a strong relationship. The financial advisor will create a financial plan for RW and RW should adhere to the advice. RW should make sure he sticks to a budget, saves and limits the amount of money he spends including gifts to family and friends. RW should not forget that he is an injury away from the end of his career and, therefore, should have the appropriate amount of disability insurance and should be investing wisely.*

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Araton, H. July 19, 2011. Once-celebrated recklessness leads to Dykstra's financial fall. The New York Times. Retrieved from https://www.nytimes.com/2011/07/20/sports/baseball/the-financial-fall-of-lenny-dykstra.html on July 26, 2019.

Bell, J. May 4, 2019. Opinion: NFL really means Not For Long, so rookies, here's advice on reality of league. USA Today. Retrieved from https://www.usatoday.com/story/sports/nfl/columnist/bell/2019/05/04/nfl-means-not-for-long-rookies-learn-harsh-reality/1100456001/ on July 1, 2019.

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Harkness, B. 2019. Credit Card Insider. Retrieved from https://www.creditcardinsider.com/blog/the-american-express-centurion-black-card/ on April 12, 2019.

Kerns, M. September 28, 2011. Steve Slaton further proves that NFL stands for Not For Long. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/869659-steve-slaton-further-proves-that-nfl-stands-for-not-for-long on July 3, 2019.

Khatchaturian, A. February 29, 2012. The 9 most financially irresponsible players in NBA history. The Bleacher Report. Retrieved from https://bleacherreport.com/articles/1085063-the-9-most-financially-irresponsible-players-in-nba-history#slide0 on July 17, 2019.

Osborn, K. August 13, 2015. 10 Insanely rich pro athletes humbled by financial ruin. Money. Retrieved from http://money.com/money/3983997/famous-athletes-bankruptcy/ on July 29, 2019.

Statista. April 30, 2011. Average playing career length in the National Football League (in years). Retrieved from https://www.statista.com/statistics/240102/average-player-career-length-in-the-national-football-league/ on August 5, 2019.

Torre, P. March 23, 2009. How (and why) athletes go broke. Sports Illustrated. Retrieved from https://www.si.com/vault/2009/03/23/105789480/how-and-why-athletes-go-broke on August 1, 2019.

Appendix A - Income and Expense Statement for Joe Rawlins

	2018	2017	2016
Income			
Wages and Salary	1,300,000	1,300,000	1,300,000
Bonuses	-	-	500,000
Endorsements	1,000,000	1,000,000	-
Investment Income	400	3,500	5,400
Total Income	**2,300,400**	**2,303,500**	**1,805,400**
Expenses			
Mortgage for Primary Home	80,500	80,500	80,500
Mortgage for Condo	66,900		
American Express Centurion[1, 2] (Harkness, 2019)	2,500	2,500	10,000
Housing	33,600	37,300	42,500
Home Improvements	64,300	74,500	54,000
Utilities	10,800	6,000	6,000
Food	87,000	87,000	95,700
BMW M6 Convertible	21,000	21,000	21,000
Car Insurance for BMW	3,000	3,000	3,000
Ford F-150 Limited 4WD SuperCrew (Forbes, 2019)	9,000	9,000	9,000
Car Insurance for Ford	2,500	2,500	2,500
Mercedes-Benz G550 SUV	24,500	24,500	24,500
Car Insurance for Mercedes	3,200	3,200	3,200
Transportation (Other)[3]	10,500	11,600	10,200
Medical Insurance	10,000	10,000	10,000
Medical (out of pocket)[4]	3,700	4,000	3,900
Clothing	93,400	143,000	92,000
Entertainment	675,000	375,000	252,000
Agent Fee[5]	138,000	138,200	108,300
Property Insurance	57,000	35,000	20,000
Taxes	768,000	770,000	442,000
Investments	34,750	233,000	38,000
Legal Fees[6]	210,000	187,000	280,000
Liability Insurance[7]	75,000	75,000	75,000
Other Expenses	95,000	90,000	40,000
Total Expenses	**2,579,150**	**2,422,800**	**1,723,300**
Cash Surplus (or Deficit)	???	???	???

Footnotes for Appendix A:

1. Premiere credit cards, such as this American Express Centurion, often have large fees to apply for the card.
2. Many credit cards, whether premiere or basic, charge a fee every year to own the card.
3. Taxis and limo's for Joe when he travels.
4. These are the medical costs Joe has to pay after his insurance pays its portion of his medical bills.
5. Athletes should pay for agents to help them find and negotiate endorsement contracts
6. Athletes should pay for attorneys to help them see to the other legal needs associated with their fame and income.
7. Athletes and other celebrities are often the target of lawsuits. Liability insurance protects the athlete in case they lose any of these lawsuits.