Who blew through their fortunes faster? A or B?

What's the difference between a professional athlete and a settlement recipient that blows through a large sum of money too fast? Two things: PUBLICITY and ALTERNATIVES. Former NFL quarterback Vince Young earned $45 million in his six-year career. The fast and furious evaporation of his fortune has created a media buzz of late, but Vince is definitely not alone. It happens in every sport and to people from all walks of life, including hundreds if not thousands of settlement recipients. And while spendthrift professional athletes can usually find a job after their playing days are through, the outlook for settlement recipients might not be so rosy. Here are lessons learned from stories of fumbled wealth.

Preliminary Stats

- 50 percent of former NBA players are broke within five years of retirement.
- 78 percent of former NFL players are broke within two years of retirement.
- 90 percent of accident victims have nothing left within five years of receiving a settlement.

Retired professional athletes who have lost all their money can usually cash in on their names and find work. Accident victims don't always have that luxury.

Lesson learned: Treat it as though you can't afford to lose it, because chances are, you can't.

Limited Pay Periods

Professional athletes have short careers and relatively few peak earning years. Not everyone is a Cal Ripken Jr. or Nolan Ryan. In many instances, careers last less than a decade. Think that's short? Accident victims may be forced to live on just one final paycheck for the rest of their lives. If they've lost their ability to work, the only fallback will be charity or welfare.

Lesson learned: Create a plan of distribution guaranteeing income that will be there for as long as needed. Income = Financial Oxygen.

Spending Control

Both Scottie Pippen and Allen Iverson thought they could afford private jets. Turns out, their eyes were a bit bigger than their wallets. While most people won't be tempted to fork out the reported $140,000 Mike Tyson paid for his white Bengal tigers, nearly everyone may be prone to indulge and spend money in ways they never would have when operating within a budget. And oh, by the way, Mike also paid as much as $1,100 per month for big-cat insurance.

Lesson learned: If you want to make it for the long haul, spend conservatively. Escalades look nice, but the fuel might cost more than Mike's tiger chow.

(more)

Bad Advice

Despite being a three-time Pro Bowler, winning a Super Bowl and making upwards of $50 million dollars, Mark Brunell is broke. According to court filings, Brunell sank his fortune into nine businesses and enterprises, five of which are no longer in operation. Not surprising given that the accepted odds of a private business (equity) deal succeeding is approximately one in 30. Many accident victims become victims all over again to family or friends with a business proposition that just needs "a little" money to succeed.

Lesson learned: Being an "accident victim" is often unavoidable. Being an "investment victim" is almost always completely avoidable. Be conservative.

Costly Fees and Taxes

Vince Young was paying his financial advisor $65,000 plus expenses to manage his finances toward the end of his career. Another NFL player was being charged nearly $150,000 a year to manage a portfolio of municipal bonds. Most financial advisors are well-meaning and trustworthy individuals. But they don't come free. Between asset management fees and underlying fund expenses, it is not uncommon to pay 2 percent or more per year for the management of your money. Taxes may take even more of your earnings.

Lesson learned: Count the costs. A gross 8 percent projected return may only be a net 5 percent after all is said and done. If that return also involves risk and volatility, think twice. No, make that three times.

Bad Timing

Rocket Ismail invested in a promising new business start-up, which opened its flagship store in New Orleans … two months before hurricane Katrina. Buying and holding investments is a very different model than using a portfolio to generate income. With the first, you may well recover from bad markets with time. For those taking income during bad cycles, the portfolio may deplete many times faster than original "hypothetical models" illustrate.

Lesson learned: The only thing we know for sure is that we don't know for sure. Investing in equity investments like stocks or mutual funds can be a very good thing. Just don't put all your eggs in NON-guaranteed baskets.

We're Just Saying ...

It would be interesting to talk to the many professional athletes and settlement recipients alike to ask, "Knowing THEN what you know NOW, would you have chosen to 'structure' some of your money if you could have?" As so many have gone from the highest high that life can offer to the lowest lows of bankruptcy court, we think we would have some takers. A structured settlement may not sound as "sexy" as the private equity deal; it just does its thing year in and year out. And that is to provide security to those who need it most, many of whom aren't likely to be offered a back-up quarterback deal anytime soon.

Lesson learned: If you only get one shot, make it count!

Sources:

- http://www.complex.com/sports/2012/04/money-to-blow-history-of-nba-players-broke/
- http://news.yahoo.com/nfl-players-react-espn-film-broke-pitfalls-celebrity-190028775.html
- "California Practice Guide: Personal Injury," The Rutter Group, Ltd., 1992
- http://sportsillustrated.cnn.com/vault/article/magazine/MAG1153364/3/index.htm