Why wealth management for athletes requires careful planning to maximize their off-field potential

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Advisors need to engage players earlier and focus on educating and protecting the athlete from day one, says an expert.

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For elite athletes who thrive on excitement and instant gratification, the path to financial success may require a very different approach than what they're used to.

Many of the qualities that fuel their success on the field, court, or ice can also lead to the total destruction of their net worth when applied to the world of investments. One way advisors can help is to rein in their clients' tendency to make split-second decisions and limit the role of emotions in financial decision-making.

"There's a tendency for athletes to want excitement in their lives," says Chris Slawson, vice president at Gavin Hockey Wealth Specialists in Toronto.

"They need to realize it's totally acceptable for an investment strategy to be boring. They shouldn't approach it as an opportunity for extreme daily rewards like you do in sports."

While the average adult will work between 40 to 50 years before retirement, a professional athlete's career might only last five to seven years, says Frank Teti, senior portfolio manager and investment advisor with The Teti Wealth Advisory Group at BMO Nesbitt Burns Inc. in Toronto.

He points to studies conducted by professional sports leagues that demonstrate the need for better financial planning, including findings that athletes begin declaring bankruptcy as soon as two years after retiring.

"While they might spend thousands of hours in training to be a pro athlete, we often find in conversation that they've spent very little time thinking about investments and what their future looks like after they've finished playing," Mr. Teti says.

Advisors must exercise a holistic approach to guide professional athletes effectively through the unique challenges and opportunities they face, Mr. Slawson says.

"When advisors understand how and when an athlete is paid, the details of their pension, what insurance is necessary to transfer risk or protect accumulated assets, and the intricacies of playing in Canada or the U.S., it allows them to be more proactive in their guidance," he says.

"Understanding how all the pieces fit together – from cash flow and insurance to taxes and portfolio management – allows advisors to provide the best advice for the athlete to maximize their off-ice potential."

'Maximizing' the opportunity

Mr. Slawson notes a recent trend in which fewer hockey players are earning the majority of teams' salary cap space. Of the 241 National Hockey League (NHL) contracts signed in 2023, he says, 211 were for less than US$3-million a year and 160 of them were for less than US$1-million.

Although the NHL limits entry-level contracts for the first three years, players could be signing multi-million dollar contracts as young as 21, he says.

With the league also trending younger, the average NHL player's career now lasts only about five and a half years.

"All these factors mean having a financial plan in place to maximize this opportunity is more important than ever," he says.

"Advisors need to engage players earlier and focus on educating and protecting the athlete from day one."

Having ready access to a team of professionals who specialize in their respective fields is essential for ensuring athletes' long-term success. While advisors were previously engaged only on the investment management side, Mr. Teti says, "Today, we offer an entire team of professionals that are available within the bank to help professional athletes, from financial planning and business evaluation to banking and tax planning."

Aligning with brand management

A former professional athlete himself, financial planner Michael Reckley taps into his personal experience when he corresponds with his clients' lawyers, accountants, agents and family members. The journey begins with first understanding where and what the athlete's challenges lie, including not just finances but also family concerns, future career growth, and personal circumstances, he says.

"The athletes of today are now brand ambassadors for themselves and the companies promoting them," says Mr. Reckley, who was an indoor/outdoor track and field champion and coach before joining IG Wealth Management in Toronto.

"They need to be very cautious and self-aware of how they handle themselves both on and off the court/field."

Social media presence, friendship circles, brand management, and faulty contracts are just a few of the things athletes may need to be advised on, he says.

"We're always looking to ensure any opportunities presented on and off the court/field are aligned with the athlete's brand and personality, values, morals, and ethics," he says. "This is how we set our 'game plan.'"

Something that can come as a surprise to most athletes is that up to 50 per cent of the value of their contract can be consumed by fees and taxes.

"These additional costs can consist of agents' fees, federal and provincial taxes, and in the U.S., 'jock tax' and FICA tax," he says. "All these taxes point to a real need for proper planning when managing the athlete's contract."

Ultimately, many factors contribute to the success of an athlete's financial plan, from higher earnings and lower income taxes to fewer outflows or above-target investment performance, Mr. Slawson says.

"It's helpful for advisors to have a discussion with their clients on how temporary setbacks in one of those areas do not imply a lack of progress toward long-term goals," he says.

"Athletes' familiarity with sports also helps them understand it's unwise to abandon a plan simply because you haven't scored in the first minute of the game."

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