COWIN FINANCIAL LITERACY PROGRAM
TEACHERS COLLEGE COLUMBIA UNIVERSITY
Generously supported by TC Trustee Joyce B. Cowin

Quick Start Guide
Case Study: I'm Rich!

Topic: financial planning

Instant wealth would be a brave new world to anyone just out of college, but to professional athletes it's an especially dangerous scenario. Trained to focus on the immediate challenge—and often lacking a fear of consequences . . . many athletes come into the leagues with an inherent appreciation for short-term, high-risk ventures.

–Tom Farrey, "How Athletes Spend Their Money"[1]

Introduction

Much has been made in the media about the high rate of bankruptcy among professional athletes (between 60 and 80% in the NBA and NFL), and commentators often point to high living and financial ignorance as the cause. Although this may be true, athletes have a special vulnerability—a handicap. It is a handicap that even those of us with no pro prospects share, but usually to a lesser degree. Being fiscally responsible is, in some ways, antithetical to being a successful professional athlete. Athletes must be able to hyper-focus on the present and believe in themselves. They must be optimistic that, however long the odds the long pass or outside shot, will be successful. However skilled they are and however much they practice, professional athletes often depend on luck, faith, or even superstition to succeed. They represent the extreme of a way of thinking that, according to Dan Ariely, a behavioral economist, all of us are inclined to use. Ariely sums it up: The problem is that saving is a long-term behavior, and in the whole repertoire of human behavior, there are almost no behaviors in which we take the long-term future into account. He points to smoking and overeating to make his point. Little wonder that making a budget based on a realistic assessment of the future, including worst case scenarios, is so difficult for most people.

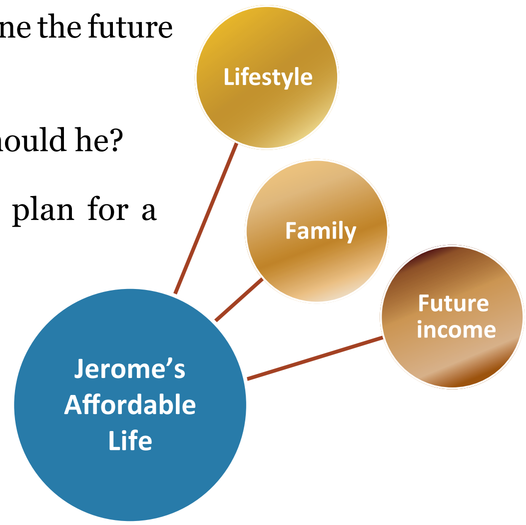
[1] http://community.seattletimes.nwsource.com/archive/?date=19901210&slug=1108679

Dilemma

Coming on as Jerome Phillips's new financial advisor, students are stepping up to a number of challenges. Long range, they must help Jerome plan a budget. In this 1-hour meeting, however, they must give him information that he needs now and gain his trust for a longer term project. The meeting presents the students with several dilemmas. One requires calculations that honor, but also reconcile, Jerome's competing interests and responsibilities. Another challenges students to help Jerome, living with unimaginable wealth in the present, imagine the future in realistic terms.

- Can Jerome get married and buy a new home? Should he?
- Can Jerome meet his near-term goals and also plan for a future of much lower earnings?

"Jerome's Affordable Life" is a graphic representation of core components of Jerome's dilemma.



What Students Will Learn

Students will learn how to create a budget that reconciles competing goals, and, in making adequate provision for the long-term future, recognize that it will include the near certainty of a precipitous loss of earning.

Problem-Solving Skills

- To conceptualize and engage with a hypothetical case study as a true problem, not one that fits neatly into, and illustrates, a preordained solution
- To conceptualize a problem from multiple points of view (to see the budget in both its ideal form—the form that takes best advantage of long-term planning opportunities—and the form that makes room for Jerome's goals and values)
- To identify the knowledge they will need to propose a solution to Jerome's dilemma
- To identify relevant criteria for evaluating whether their solutions to the dilemma are appropriate

Related Financial Literacy Concepts

Budgeting: Meeting your financial goals requires making a plan, and measuring your progress towards your goals requires keeping track of your basic finances—income, spending, saving, and borrowing. A budget helps you keep records of your actual financial activities and make adjustments to help you meet your goals; a budget also helps you recognize trade-offs that are essential when making tough choices on how to best make use of scarce resources.

Investing: In personal finance, investing refers to putting current money into some asset with the expectation of future return. Although investments often carry risk, they offer an opportunity to grow money over time, save for the future, and meet long-term financial goals.

Long-term goal: The trade-offs we face are not limited to today; we also face trade-offs between current and future consumption. The choices we make today will affect our savings and income in the future, so these choices should be made with long-term goals in mind. By their very nature, these goals take a long time to achieve (and are easier to reach with the power of compound interest over several years), so the sooner you begin planning for them, the more successful you are likely to be in reaching them.

In the Classroom . . .

1 HOMEWORK

Assign the case study for homework. Tell students that in order to be completely familiar with the facts of the case they should read it twice: once to get an overview of the case and then a second time to make note of the facts that seem most important.

2 AS A WHOLE CLASS

Agree on a detailed understanding of the facts. Ask students to restate what they know about the case.

What do you notice? Ask students to describe the case—to retell it as a story. Draw students out on statements of the problem. Many will say that Jerome is overextended, but some might notice that his current spending is not based on realistic calculations of his future income. Be clear that you only want the problem—NO solutions. Insist that they be respectful of their client and not judgmental about his dilemma. If necessary, ask that they complete the sentence, "The real problem here is. . .". Ask students to put their problem statements on the board.

Identify the dilemma. Show students a sample dilemma map on a different topic from "Using the Quick Start Guides." Once they have grasped that it maps the complexity of a decision, put a blank map on the overhead and, as a whole class, agree on the central dilemma. Tell them it will be their job to complete the map. (If appropriate to the group, agree on the central dilemma and main branches as a class.)

3 GROUP ACTIVITIES

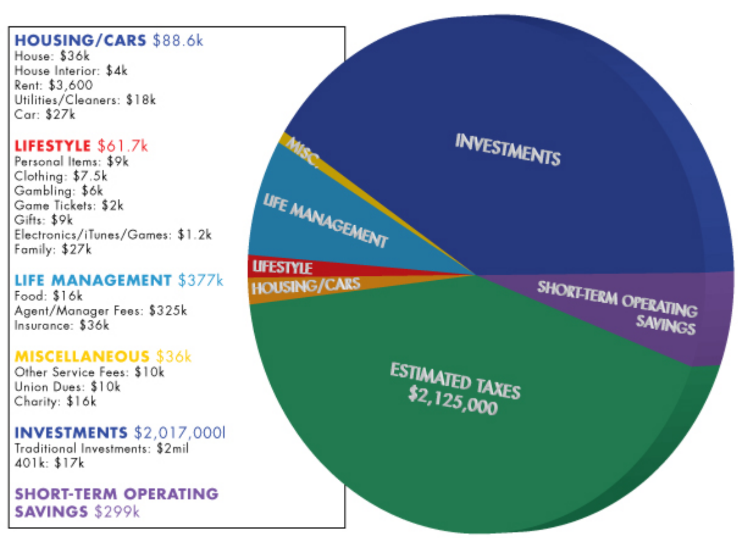
1. After putting students in groups of 4–6, tell them that, in preparation for meeting with Jerome, they are to complete the map in a way that will prove to him that they understand him. They are to use a review of the case to complete the map. Ask students what more they will need to learn from their interview with Jerome to complete the map. Consider asking them to complete this activity by having one student in each group play the part of Jerome.

2. Using what they know about Jerome's current spending commitments and the provided two-item budget pie chart, ask students to make an approximation of what his spending would look like. Tell them that the "Taxes" side of the chart cannot change; all changes need to be made to the "Other" side of the chart. If they need a model, show them the pie chart of a different athlete's spending here:

   http://www.gq.com/sports/guides/201204/athletes-millionaires-bankrupt-spending

   Consider talking students through this step as a demonstration or a whole-class activity.

3. With students still working in small groups, distribute another blank budget pie chart. Their goal is a first, rough draft of a balanced spending plan for Jerome, but one that accomplishes as many of his goals as possible. Ask them to make a new pie chart and list the information they will need to complete it (house prices, for example). When they have completed their pie charts, distribute the pie chart developed by a professional financial planner with a different NFL client.[2] Plans vary by client, but ask them to see if there is anything in this chart that suggests a modification of their draft for Jerome.



[2] http://www.gq.com/sports/guides/201204/athletes-millionaires-bankrupt-spending-money

Complicating Factors

After students have completed their pie charts, consider giving them some or all of the following facts, from CNN.com,[3] and ask that they revise their charts if they think it is necessary.

"During the NFL lockout this year, some startling numbers came to light as many players were forced to consider what their lives would be like without football.

- The average NFL career is 3.52 seasons;
- The average age of retired NFL players is 28;
- Within five years of leaving the league, 75% of NFL players end up broke, divorced or unemployed;
- 65% of NFL players leave the game with permanent injuries;
- At least 20% of players reading this are clinically depressed;
- The average life expectancy for retired NFL players is 53-59 years.

When you look at the statistics for the life of an NFL player, coupled with the CTE [chronic traumatic encephalopathy] symptoms from repeated concussions, this checklist makes you wonder if 'NFL' really stands for 'not for long.'"

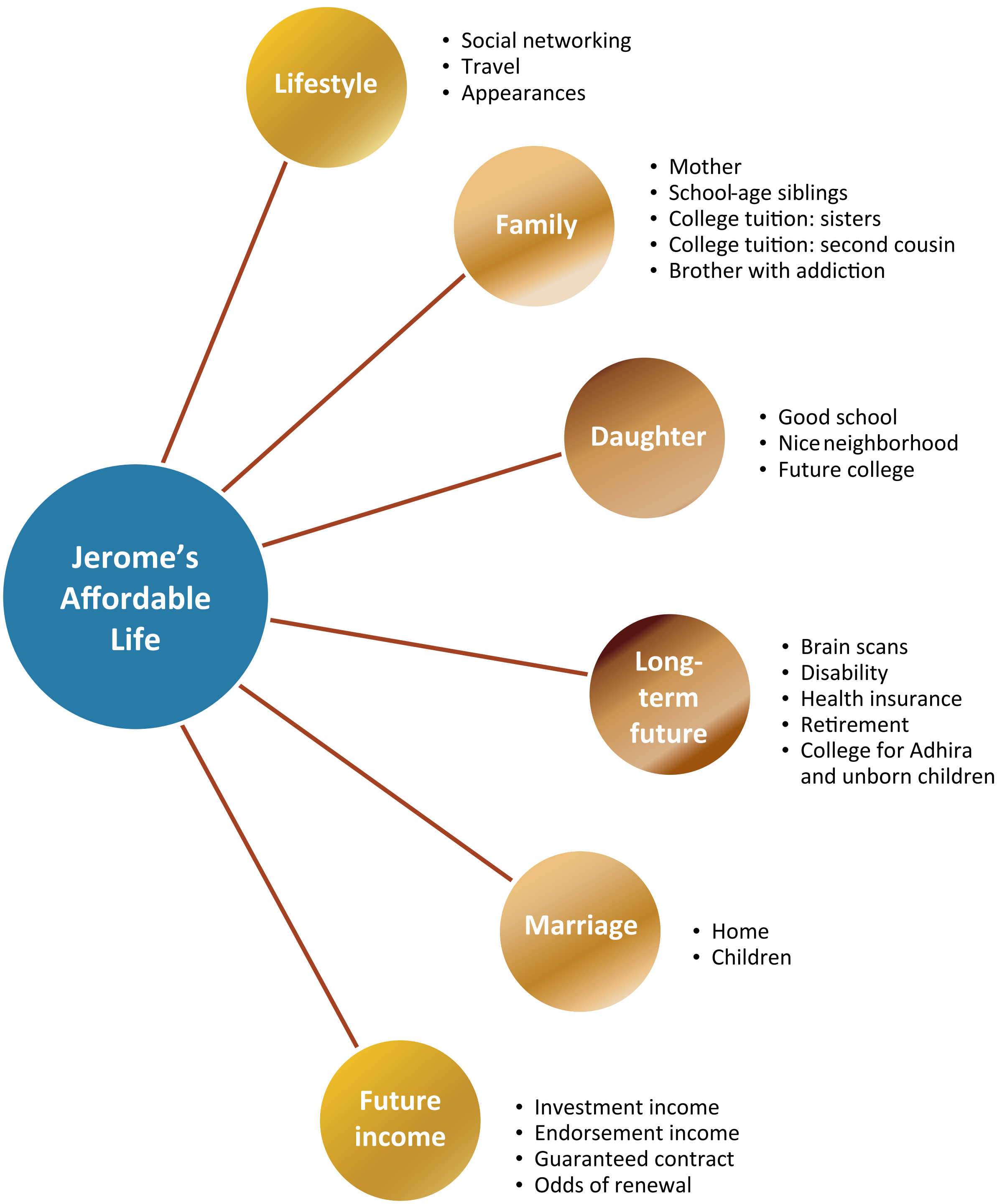
[3] http://www.cnn.com/2011/OPINION/09/08/nfl.life.after.the.game/

Extensions

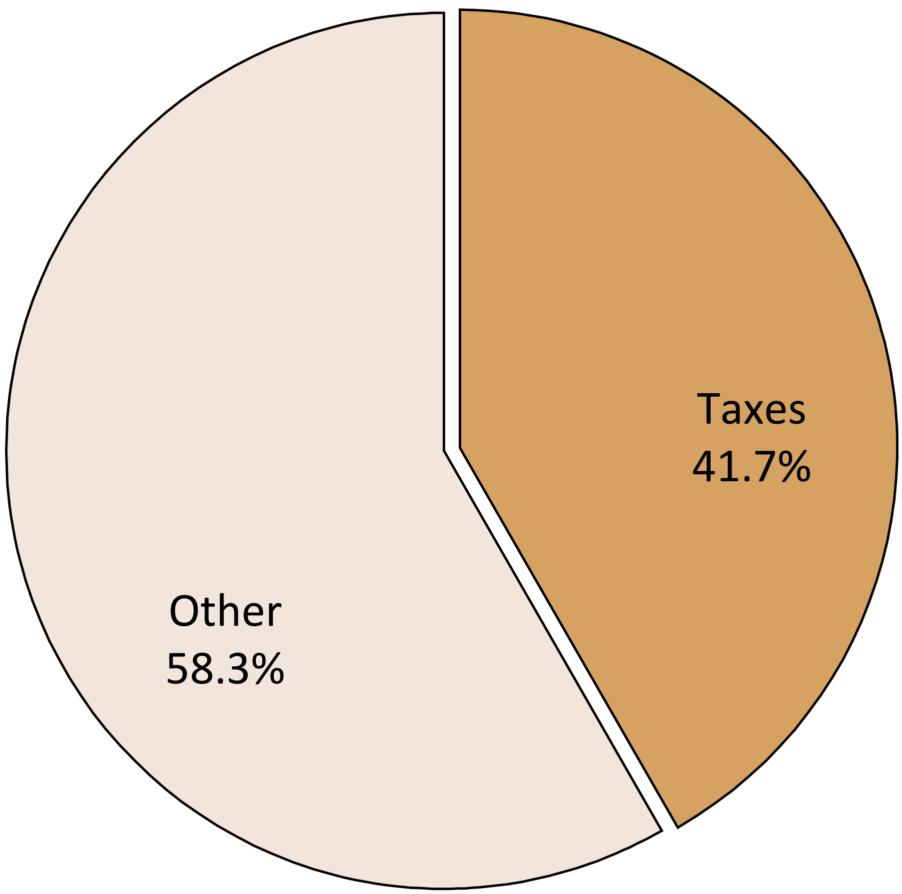
1. Assign students the 1990 article, "How Athletes Spend Their Money."[4] Ask students to use the detailed data in the article to create a budget pie chart from that era. In what ways does the pie chart from 1990 resemble a 2014 spending chart? Are there any significant differences?
2. After working with such a rich and famous client, challenge students to determine the extent to which financial challenges and financial advice are "universal"—what can everyone learn from Jerome's experience? To what extent should financial advice be customized for each individual case?

[4] http://community.seattletimes.nwsource.com/archive/?date=19901210&slug=1108679

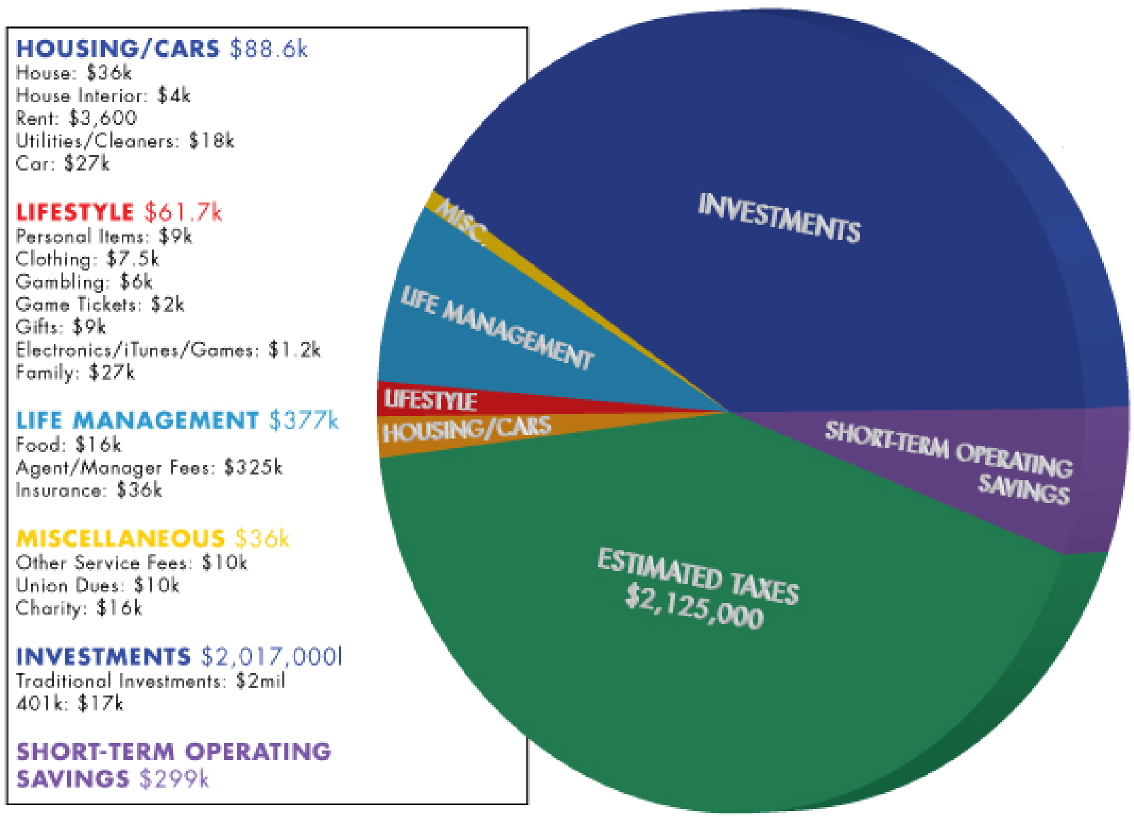
Completed Dilemma Map



Jerome's Budget Pie Chart



Professional Planner's Pie Chart



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