

Topic: financial planning

Case Study: I'm Rich!

Is \$30 million enough to do pretty much anything you want?

Background

Jerome Phillips is a marquee professional football player in year 4 of a 6-year, \$30 million contract, but he is a working-class kid from New York, and he isn't sure how to handle all that money. When he is out with friends, he feels the pressure to play the part of the star. "I go to bars and clubs, and I don't even drink alcohol, and I get stuck with a \$400–\$500 tab," Phillips complains. "And I'm like wait a minute, I had four Sprites." He says a combination of pride and pressure prompts him to cover expenses so he can feel like "a superstar" even though what he does on the field should speak for itself.

But this kind of spending is not really the big issue for Jerome. Jerome's primary financial responsibility has always been his 5-year-old daughter Adhira, and he doesn't forget that. Although he and her mother, Judith, never married and are not together, they have a good relationship and cooperate well on matters concerning Adhira. There has been no court order because her mother has never doubted that Jerome would always support Adhira to the best of his ability. Furthermore, Judith has a good job as a teacher, and Jerome has provided generously for Adhira's care. Mother and daughter live in Brooklyn, close to where Jerome's mother used to live. The neighborhood elementary school is not great, so Jerome and Judith have begun discussing whether Adhira should go to private school when she starts kindergarten. If Adhira were admitted to St. Annes, a pre-K–12 day school near where Judith lives, the tuition would be over \$38,000 a year.

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Jerome's mother has never asked for anything directly, but early in his contract, he stepped in to move her (now on her own since his father died) and his two school-age siblings from Brooklyn into a house in New Rochelle, an affluent suburb with nice homes and good schools. His mother usually works at Wal-Mart, but has some health issues, so he is essentially supporting the three of them. More recently he has taken over tuition payments for two sisters and a second cousin in college. His older brother has been in and out of trouble, and in and out of drug treatment programs. Of even greater concern, the brother was arrested for selling cocaine. A condition of his parole is an extended treatment program. This situation is weighing heavily on Jerome's mother, so this time, Jerome wants to be sure his brother gets the best possible treatment. He has heard that the Betty Ford Clinic fits the bill. One hundred and twenty days will cost over \$80,000.

Dilemma

Jerome knows that NFL quarterback Vince Young, a man who also received over \$30 million from his first contract (approximately \$5.6 million per year in salary) as well as \$30 million in signed endorsement deals) had, in a period of less than 6 years, lost it all and filed for bankruptcy.

Jerome is engaged to his fiancée, Shoshanna, but he's been warned that divorce could be a huge threat to his financial future. The facts are that nearly 80 percent of pro athletes filed for divorce during their career, or within 3 years of retiring.

Jerome also knows that when NBA star Kobe Bryant pulled back from his family's demands, Kobe's mother gave all of the mementoes he had left at home—his stuff from high school including jerseys, practice gear, sweatsuits, varsity letters, and a trophy for being the outstanding player at the 1995 Adidas ABCD basketball camp, as well as a signed basketball from the 2000 NBA championship game—to an auction house to sell. There were 900 items in all and they might be worth a total of \$1.5 million.

Jerome knows all this, but sees himself as being quite different from Vince Young or Kobe Bryant. He doesn't party much, at least not compared to other guys on the team; he isn't married yet; and his relationship with his mother and brothers and sisters is good.

Nevertheless, Jerome is unsure of how much money is coming in and going out, and how much he can afford to spend on what. He has left his own needs for last, but he would like to marry his fiancée Shoshanna and move with her into their own home in New Rochelle.

Can he afford it?

Task

Can Jerome afford to get married and move? He has come to you, a friend of the family and, as it happens, a certified financial planner. He is only asking about the house and marriage (those divorce stories have apparently spooked him a bit), but you think there is more work to be done.

Although Jerome is vague about his finances, he does know that, last time he looked, he had \$7 million in the checking account of his Brooklyn bank. Because he is in year 4 of a 6-year, \$30-million contract, he knows he will get another \$10 million in salary over the next 2 years. He isn't too worried. He is only 25 years old, and Jerome figures he can count on at least one more 6-year contract, maybe even two, earning at this level.

You believe Jerome needs to worry, and that he needs to learn much more about financial planning—budgeting for the present and saving for the future. He's a nice guy, but hard to pin down to even a first appointment. He's busy, but also, he really doesn't like this stuff. In fact, he'd be happy to have you just tell him if he's financially set to get married. His mother helps you pin him down to an appointment time. You have an hour with him a week from now. Plan that hour to make sure it really counts.

Terms

- 401(k)
- Budgeting
- Diversification
- Earnings
- Financial planner
- Investing
- Long-term goal
- Pay yourself first
- Retirement planning
- Risk tolerance
- Stages in life

Resources

Navigating Pitfalls of a Windfall

As sources of anxiety go, receiving a large sum of money must rank far down the list. But managing a windfall can be a stressful, hazardous undertaking.

http://www.nytimes.com/2012/02/09/business/avoiding-the-pitfalls-of-a-windfall.html?_r=0

Why Do Athletes Go Bankrupt?

Could one person actually spend \$34 million from his first contract in six short years?

<http://www.marketwatch.com/story/why-do-athletes-go-bankrupt-2013-05-13>

The 50/30/20 Budget Fix

How much should you spend on housing? Groceries? The frustrating answer is “it depends.” Now there’s a way to figure it out, and it works regardless of your income.

<http://money.msn.com/how-to-budget/how-much-should-you-spend-on-weston>

Ideal Budget

You only have so much money—make sure you’re spending it in the right places [an interactive tool].

http://cgi.money.cnn.com/tools/budget101/budget_101.jsp

How Athletes Spend Their Money—A Millions May Not Necessarily Go A Long Way, As Unscrupulous Financial Advisers, Dubious Investments And Reckless Spending Drain ‘Bottomless’ Bank Accounts

<http://community.seattletimes.nwsourc.com/archive/?date=19901210&slug=1108679>

For Some Athletes, a Short-Lived Financial Success

<http://www.npr.org/templates/transcript/transcript.php?storyId=136445218>