Athletes and Entertainers

Fundamentals for developing a wealth strategy

Contents

Athletes and Entertainers
UBS Financial Services Inc.
CIO Global Wealth Management
1285 Avenue of the Americas
8th Floor
New York, NY 10019

Author
Jeff LeForge

Contributors
Ainsley Carbone
Daniel Scansaroli
Justin Waring

Editor
Abe De Ramos

Project management
Matt Siegel

Design
John Choi

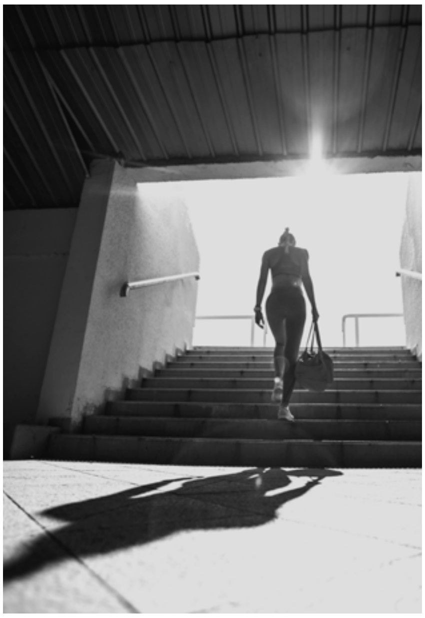
Cover picture
Getty images

Publishing date
16 November 2020

Language
English

Contact
ubs-cio-wm@ubs.com

Learn more at
www.ubs.com/cio

Introduction

Professional athletes and entertainers often experience peak earnings in a relatively short duration earlier in life. However brief this period is, their peak earnings typically dwarf what an average individual earns in a decade or lifetime. As a result, athletes and entertainers often face unique financial challenges, circumstances, and considerations at a relatively young age, when financial decisions can have a long-term impact on personal wealth.

This report highlights the critical financial challenges and decisions that professional athletes and entertainers face. We then present a structured approach to help athletes and entertainers, like you, confront these challenges with clarity, and make informed financial decisions based on your interests, values, passions, lifetime goals, and legacy objectives.

As always, we hope you find the content useful for defining your wealth strategy, and reaching your desired financial outcomes throughout each phase of life—and across generations.

Daniel Scansaroli
Head of Portfolio Strategy Americas
UBS Global Wealth Management

Jeff LeForge
Investment Strategist Americas
UBS Global Wealth Management

Justin Waring
Investment Strategist Americas
UBS Global Wealth Management

Ainsley Carbone
Total Wealth Strategist Americas
UBS Global Wealth Management

Unique financial challenges

Many professional athletes and entertainers have neither the time nor the inclination to think about how their future might look years or decades down the line. Moreover, their financial circumstances and the financial challenges they face are often unique compared to the rest of the population:

- Athletes and entertainers, generally speaking, experience a starkly different career trajectory than most individuals. They can have years where their income dwarfs what an average person would make in a lifetime.
- They also have a lot less predictability around their earnings, are burdened with the knowledge that their career can end abruptly, and frequently face significantly reduced earnings potential after their career is over.
- Many athletes and entertainers feel an obligation to support family and friends financially—high income, however temporary, can make it harder not to "share the wealth."
- Most receive far less than what the top-line number in their contract would imply, but that's not always clear to friends and family looking for financial support. After taxes and fees, athletes and entertainers often "take home" 50% or less of the top-line value.

Universal financial considerations

Despite the unique financial challenges and opportunities that athletes and entertainers face, in many ways they are also fundamentally similar to the general population:

- They have family, friends, values, and charities that they care about and want to impact, now and in the future.
- They need to establish a reasonable budget that reflects their current reality, along with their longer-term needs, goals, and legacy objectives.
- They have to determine the most effective way to invest their savings.
- They face disability risk, longevity risk (running out of money), and mortality risk.

A structured approach to wealth management

Ultimately, athletes and entertainers can face a steep financial learning curve while at the same time remaining one of the top performers in the world. Nevertheless, finding clarity to make informed financial decisions involves a cyclical process that generally includes:

- Uncovering your interests, values, passions, lifetime goals, and legacy objectives (Fig. 1)
- Coordinating and communicating relevant information across your trusted advisors and advocates (Fig. 2)
- Developing a complete picture surrounding your situation and circumstances
- Establishing an annual budget with monthly or periodic reviews
- Aligning your cash flows, assets, and resources to address your needs and desired outcomes throughout life

Figure 2

A team of trusted advisors and advocates

Many athletes and entertainers hand select a team of professionals

Source: UBS

Figure 1

You set the foundation of your wealth management strategy.

Based on your goals, interests, beliefs, values, passions—and those of all the people around you

Who are the **people** that matter the most to you?	What do you want your **legacy** to be?	What do you want to accomplish in your **life**?	What are your main **concerns**?	How do you **plan** to achieve your life's vision?

Source: UBS

Liquidity. Longevity. Legacy.
Our approach to wealth management is built on the foundation of your interests, values, passions, goals, and financial objectives. Figure 3 illustrates this approach, which allocates wealth and resources into three key strategies that we call the 3Ls—Liquidity. Longevity. Legacy.—to help provide cash flow for short-term needs, for longer-term needs, and for needs that go beyond your own.[1]

At its core, the 3L approach to wealth management is a blueprint to help understand how to allocate all of your assets and liabilities to meet your spending objectives. It is designed to provide clarity for all the financial decisions embedded in your interests, values, passions, lifetime goals, and legacy objectives.

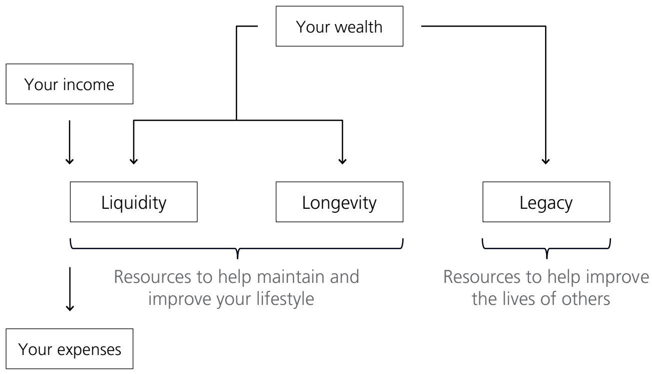
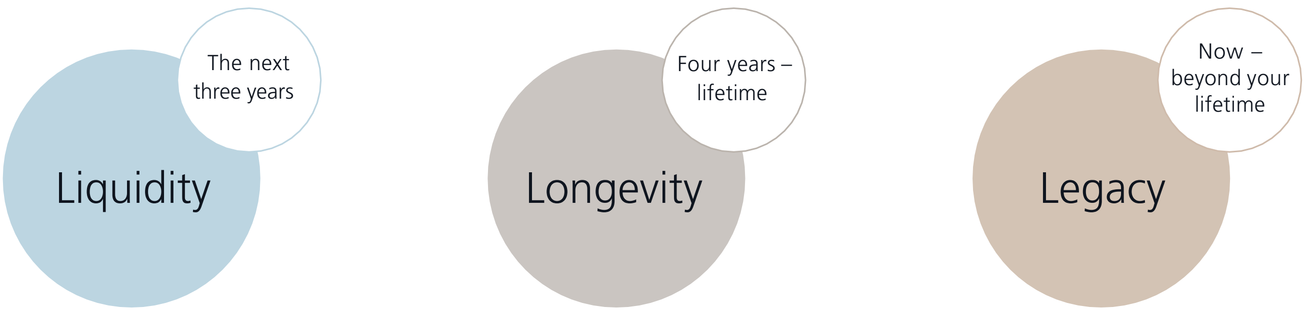


Figure 3

Three key strategies—Liquidity. Longevity. Legacy.—to allocate your wealth

The relative size of each strategy and the resources that they contain change throughout your life cycle



To help provide cash flow for short-term expenses—to help **maintain your lifestyle**

- Day-to-day spending
- Emergencies
- Taxes and fees
- Large expenses

For longer-term needs—to help **improve your lifestyle**

- Post-professional career
- Large expenses
- Retirement
- Healthcare and long-term care

For needs that go beyond your own—to help you **improve the lives of others**

- Giving to family
- Philanthropy
- Multi-generational objectives

Source: UBS

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

[1] Michael Crook, Jeff LeForge, Justin Waring, and Ronald Sutedja, "Liquidity. Longevity. Legacy. A purpose-driven approach to wealth management (UHNW)," UBS Chief Investment Office Global Wealth Management, April 2018.

Evolving aspects of wealth

Professional athletes and entertainers can experience vastly different career trajectories at the individual level. In the following sections, we present key topics to help guide meaningful conversations between you and your trusted advisors. Figure 4 illustrates a hypothetical example of resources and components allocated across the Liquidity. Longevity. Legacy. strategies to help serve as a blueprint when developing your 3Ls.

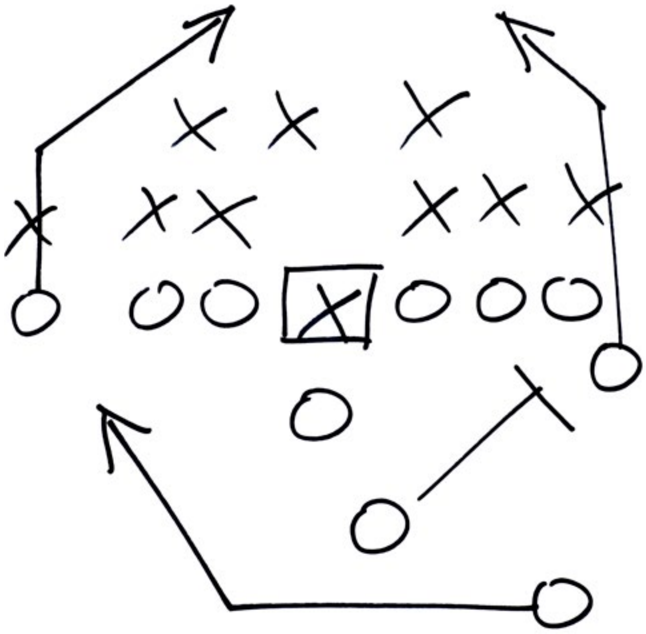


Figure 4

A blueprint to Liquidity. Longevity. Legacy.

The relative size of each strategy and the resources that they contain change throughout your life cycle.

Liquidity

Resources to maintain your lifestyle

Income
- Salary, earnings, bonus, etc.
- Disability insurance

Stable investment assets
- Emergency fund
- Cash and high-quality fixed income
- Expense accounts

Access resources
- Line of credit

Funds ↓

Your expenses

Longevity

Resources to improve your lifestyle

Taxable savings
- Taxable investments / accounts

Primary residence
- Mortgage, property insurance

Retirement
- Retirement savings / accounts
- Pensions, annuities
- Social Security
- Healthcare, long-term care insurance

Legacy

Resources to improve the lives of others

Family
- Life insurance
- Homes / residences
- Memorabilia, intellectual property / rights
- Trusts / gifting
- Family-controlled entities

Philanthropy
- Strategic giving
- Donor-advised fund / private foundation

Federal / State
- Estate taxes

Your attorney, accountant, and other trusted advisors
- Healthcare proxy
- Durable power of attorney
- Estate documents
- Gift tax return

Source: UBS

Strategies are subject to individual client goals, objectives and suitability.

Early professional years
Below are some key points to consider in the early phase of your professional career:

Budgeting: Budgeting is the process of estimating future income and expenses over specified periods, for example, monthly and annually. Along with periodic reviews, it can be useful to create a "nondiscretionary" expense account to manage obligations like taxes, rent or mortgage payments, and other commitments. Similarly, a "discretionary" expense account can help maintain disciplined spending on the things you want (but don't necessarily need) like travel, shopping, and other luxuries.

Benefits programs: Benefits programs can vary greatly by organization, but some common examples of benefits are medical insurance, health and retirement savings plans, pensions, annuities, life and disability insurance, and maybe even education assistance. It's important to evaluate your available options each year and to make the necessary elections so that you get the most of your benefits programs.

Cash management: Many athletes and entertainers receive their annual salary during certain months or weeks of the year and need to account for the period in between. The Liquidity strategy helps to address the periods where future expense estimates exceed future income estimates by holding stable assets, like cash or high-quality fixed income, to cover the shortfall.[2]

After-tax savings: Holding too much cash can be detrimental to long-term wealth because the return on cash generally fails to keep pace with the rising cost of goods and services. Therefore, the income that's not needed to fund your Liquidity strategy and benefits programs goes to the Longevity strategy's diversified growth portfolio, which is intended to keep pace with or exceed the rising cost of goods and services over the long term.

Estate planning: In the absence of an estate plan, your assets will be disposed of under state "intestacy" laws, which may or may not reflect your wishes.[3] A basic estate plan includes 1) powers of attorney, 2) medical directives, and 3) wills or revocable trusts.[4] Given the public visibility of athletes and entertainers, however, revocable trusts are recommended so as to keep affairs out of the public eye in the event of an untimely death.[5]

Strategies are subject to individual client goals, objectives and suitability.
[2] Dan Scansaroli, Leslie Falconio, Justin Waring, and Jeff LeForge, "Implementing a Liquidity strategy," UBS Chief Investment Office Global Wealth Management, September 2020.
[3] Emily Brunner, "Estate planning for unmarried individuals," UBS Advanced Planning Insights, August 2019.
[4] Advanced Planning Group, "Estate planning 101," UBS Advanced Planning Insights, March 2020.
[5] Robert Madden, "Estate planning for the professional athlete," UBS Advanced Planning Insights, June 2017.

Core professional years
As you approach the summit of your career, you will have additional, deeper points to consider:

Evaluating opportunities: Some opportunities present themselves while others may take time to develop. Weigh the trade-offs between offers, deals, endorsements, and other outside opportunities. In short, establish a plan for each contract and prepare for the post-professional years—before they arrive.

Wealth accumulation: In general, wealth accumulates by saving and through growth from savings. The overwhelming majority of savings for high-income individuals end up in taxable accounts, so the growth is subject to taxes. Tax-aware investing is a critical part of the asset allocation process that requires ongoing portfolio monitoring, rebalancing, and reviews to ensure assets and resources align with your needs and desired outcomes while minimizing the tax impact.

Liability management: Proactively managing the liability side of a balance sheet is an important part of wealth management. Prudent use of debt can help further diversify balance sheet risk and improve outcomes. For example, rather than selling investments and incurring an immediate capital gains tax expense, a loan can help to spread the liability over multiple years or decades, where future income may help to offset the debt payment while providing your investments with the opportunity to benefit from long-term, tax-deferred growth potential.

Risk management: There are two broad aspects for professional athletes and entertainers to consider when managing risks. First, losing out on income due to injury or disability, and second, loss of assets from potentially frivolous lawsuits. Income and asset protection strategies can help to mitigate the long-term negative impact to wealth. High earnings potential and public visibility may create a greater need for income and asset protection.[6]

Philanthropy: As part of the Legacy strategy, many professional athletes and entertainers want to use their public visibility and wealth to advance charitable causes that are important to them. High earnings not only provide the funds for such endeavors, but also stimulate the need for charitable income tax deductions that are sought by highly compensated individuals.[7] Donor-advised funds and private foundations allow a donor to make a charitable contribution in a given year and deploy the gifted funds over a period of time in accordance with the donor's Legacy strategy.[8]

Conclusion

Ultimately, UBS's goal is straightforward: to help athletes and entertainers like you understand how wealth can be managed to help meet your lifetime goals and legacy objectives. We believe that the structured, purpose-driven approach of our Liquidity. Longevity. Legacy. framework can provide clarity surrounding the decision-making process and help mitigate the financial challenges you might encounter.

Strategies are subject to individual client goals, objectives and suitability.
[6] Robert Madden, "Estate planning for the professional athlete," June 2017.
[7] Robert Madden, "Estate planning for the professional athlete," June 2017.
[8] Advanced Planning Group, "DAFs and private foundations: Choosing an appropriate vehicle to drive philanthropy," UBS Advanced Planning Insights, August 2020.

Disclaimer

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS").
The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research.**

Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Options and futures are not suitable for all investors, and trading in these instruments is considered risky and may be appropriate only for sophisticated investors. Prior to buying or selling an option, and for the complete risks relating to options, you must receive a copy of "Characteristics and Risks of Standardized Options". You may read the document at https://www.theocc.com/about/publications/character-risks.jsp or ask your financial advisor for a copy.

Investing in structured investments involves significant risks. For a detailed discussion of the risks involved in investing in any particular structured investment, you must read the relevant offering materials for that investment. Structured investments are unsecured obligations of a particular issuer with returns linked to the performance of an underlying asset. Depending on the terms of the investment, investors could lose all or a substantial portion of their investment based on the performance of the underlying asset. Investors could also lose their entire investment if the issuer becomes insolvent. UBS Financial Services Inc. does not guarantee in any way the obligations or the financial condition of any issuer or the accuracy of any financial information provided by any issuer. Structured investments are not traditional investments and investing in a structured investment is not equivalent to investing directly in the underlying asset. Structured investments may have limited or no liquidity, and investors should be prepared to hold their investment to maturity. The return of structured investments may be limited by a maximum gain, participation rate or other feature. Structured investments may include call features and, if a structured investment is called early, investors would not earn any further return and may not be able to reinvest in similar investments with similar terms. Structured investments include costs and fees which are generally embedded in the price of the investment. The tax treatment of a structured investment may be complex and may differ from a direct investment in the underlying asset. UBS Financial Services Inc. and its employees do not provide tax advice. Investors should consult their own tax advisor about their own tax situation before investing in any securities.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies and styles approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit the portfolio manager's ability to participate in certain investment opportunities that otherwise would be consistent with its investment objective and other principal investment strategies. The returns on a portfolio consisting primarily of sustainable investments may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by the portfolio manager, and the investment opportunities available to such portfolios may differ. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility, sustainability, and/or impact performance.

Distributed to US persons by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores México, S.A. de C.V., UBS Securities Japan Co., Ltd, UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. UBS Financial Services Incorporated of Puerto Rico is a subsidiary of UBS Financial Services Inc. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Version B/2020. CIO82652744

UBS