The Super Bowl & Bankruptcy: Pro Athletes and Why They Go Broke

By Arizona Bankruptcy Attorney John Skiba

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Being that the Super Bowl is here I thought I would revisit an interesting article I read last year on professional athletes from the NFL, NBA, and MLB and why they file for bankruptcy at staggering rates. The article first appeared in Sports Illustrated back in March 2009 and was written by Pablo Torre. In the article he cites the following statistics:

NFL: by the time NFL players have been retired just two years 78% have either filed for bankruptcy or under financial stress because of joblessness or divorce.

NBA: within five years of retirement 60% of NBA players are broke.

Knowing that most of these players are making incredible salaries compared to the average Joe it seems incomprehensible that these athletes would be able to burn through so much money in such a short amount of time. Mr. Torre provides four reasons that professional athletes go through financial hardship in such large numbers. Not surprisingly these reasons are similar to the reasons why those of us non-millionaires go through financial hardship as well.

1. The Lure of The Tangible

The article points out that many pro athletes tend to invest in risky things such as night clubs, restaurants, and start up businesses rather than diversifying their investments in things such as stocks, mutual funds, etc. Essentially, the argument is, the pro athlete can actually *see* what they are investing in when it comes to the night clubs or restaurants while investing in the stock market is essentially invisible and, to put it bluntly, boring.

On a smaller scale I see similar investment choices in clients that have lead to bankruptcy. I remember once client that had purchased a Hummer with a sticker price of $68,000. Not only was the purchase price outrageous, but because she had poor credit the only loan that was offered to her was a seven year loan at…wait for it…28% interest! The truth in lending statement attached to the loan documents showed that she was going to pay well over $100,000 for this vehicle and the payment was nearly $1,500 per month. She made the choice to sacrifice many other things in her life and hurt her financial well being for the long term because of the choice of where she wanted to spend her money. The lure of being able to see that Hummer in her driveway trumped an investment that while more invisible incredibly more sound.

2. Misplaced Trust

Next, the article states that many professional athletes end up making poor financial decisions based upon misplaced trust in people who are not qualified. The example used by Mr. Torre is the athlete who becomes a first round draft pick and goes from being a poor college kid to a millionaire over night. Not knowing where to turn, they turn to a friend or family member who may have good intentions but is ill qualified to manage such wealth. The decision is not based upon a person's expertise, but based upon an underlying relationship.

I have several clients who have invested in a friend or family member's business or hired a friend to manage their business's books, not because this person was particularly qualified, but because of the friendship. While this does not always lead to financial difficulties, often the relationship gets in the way of sound judgment and but for that relationship there is no way you would have made such a risky investment.

3. Family Matters

Mr. Torre points out that the divorce rate for professional athletes is in the 60% to 80% range. Divorce usually results in the professional athlete losing half of their net worth.

With my clients, divorce is a huge factor in filing for bankruptcy. Often a divorce proceeding is followed shortly thereafter with a bankruptcy filing for either one or both people. The reason being is that during the divorce proceedings the debts are allocated between the two parties – each agreeing to shoulder a portion of the debt. While the divorce decree is binding on the parties to the divorce, it is not binding on their creditors. So if husband agrees to take on the Visa bill and fails to pay it, Visa will go to ex-Wife and demand she pay it or get sued. Further, if one spouse files for bankruptcy, then the entire debt load can shift to the non-filing spouse resulting in a second bankruptcy.

4. Great Expectations

We have all seen the professional athlete with his entourage and other hanger-ons. The need or desire to help out all of their friends or family members proves to part of the undoing of the professional athlete. I see this in my client's lives as well. Especially with the down turn in the economy, I have seen a large increase in the number of retired persons who come in and have $50,000 or more in credit card debt. By all accounts these people have done well financially in life and have a comfortable retirement. What happens is their children run on hard times and the parents, wanting to help out their kid as any parent would, puts money on the credit card to help their children out with things like house payments, car payments, and the like. In time these bills add up and then the person who is retired and living on a fixed income is unable to make the minimum payments and ends up in bankruptcy.

If you are facing financial difficulties it is vital that you contact an experienced bankruptcy attorney to discuss what options you have. I offer a free bankruptcy consultation where we can discuss your specific situation and determine if bankruptcy is a good option for your current situation.

Super Bowl prediction: Steelers 24   Packers 17

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