ATHLETE WEALTH MANAGEMENT GROUP
BUILD YOUR LEGACY

When Tragedy Strikes

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What happens, and what can be done, to protect family if a player dies?

We were all saddened to hear of the recent passing of Yordano Ventura. While the baseball community mourns the loss of another young superstar we cannot help but think about his family. As wealth managers responsible for the management of a player's affairs we hope that Ventura's agent, financial team, and family had done everything necessary to plan for this unforeseen tragedy. We felt it prudent to share a few key planning items to ensure future players and their families are protected.

Multi-year Contract Planning

One of the first questions we were asked following the passing of Ventura was if the remainder of his contract would be voided? The good news is that is not the case. The remaining earnings will be paid as scheduled to either the player's spouse or estate as long as the player's death was not the result of any exclusions listed in the contract.

While this is great news for the player's family it can also cause an unexpected financial burden on the family if they have not implemented the proper planning. Due to the guaranteed nature of the income, **the remaining compensation will be included in the player's estate in the year of death as Income In Respect Of A Decedent (IRD).** For many players liquid assets may not exist to satisfy estate tax obligations if this happens early in the deal and most of the compensation was deferred.

The estate tax would depend on whether there is a surviving spouse or not. In the case where there is a surviving spouse (and that spouse is a US citizen), the unlimited marital deduction could be used to delay recognition of the income until received by the estate to avoid immediate estate tax. Unfortunately, if there is no surviving spouse, the remainder of the guaranteed salary becomes taxable in the year of death, even though payment will not be received until due in later years.

Recommended Planning for A Multi-Year Contract

To plan ahead for the unexpected, every player should have setup a basic estate plan which we will discuss below. Upon signing a multi-year deal, the last Will and Testament of the player should be updated to stipulate that future payments be assigned to a trust. The trust provides creditor protection for heirs and lays out the terms under which disbursements to the beneficiaries would occur. This would be important where the beneficiaries are young children and could potentially be overwhelmed by a large sum of money received before ready.

To plan for the immediate recognition of the remaining salary due on a multi-year contract and the associated estate tax it is prudent to obtain life insurance which will provide the necessary liquidity. There are many different types of policies to consider, at different price levels, which are beyond the scope of this article. However, it is critical to evaluate how the life insurance policy will be owned.

Irrevocable Life Insurance Trust (ILIT)

One of the main reasons people set up an ILIT is to help provide their heirs with flexibility in settling their estate. As we discussed above there is a high probability the family will lack the cash to pay estate taxes. (The top federal estate tax rate for 2017 is 40%. Also, a number of states impose separate state inheritance and/or estate taxes.) As a result, heirs may be forced to sell real estate, stocks, or other assets to raise cash.

Aside from being an administrative headache to accomplish in the nine months before estate taxes are due, selling assets can present problems. Your heirs may want to keep the home, jewelry, or other assets you have passed on but they may be forced to sell them to raise cash. Or the timing could be inopportune—a slumping stock market or depressed real estate values could force the estate to liquidate assets at low values. Another hazard of a forced sale is the potential to trigger income with respect to a decedent—in essence, forcing your heirs to pay additional taxes in order to settle the estate tax bill.

A key advantage of an ILIT is that if the trust is set up and administered correctly, the assets owned by the ILIT will not be considered part of your estate for inheritance/estate tax purposes—meaning your heirs won't have to pay estate or inheritance taxes on the life insurance death benefits that are paid after your death.

While an ILIT can provide a number of potential tax advantages, creating one is not a decision to be entered into lightly. A trust is a complex legal arrangement whose creation requires professional assistance, and it is most effective when in place prior to buying the insurance. The trust is irrevocable and once it is set up, you cannot terminate it, make changes to it, or withdraw the assets.

Mulit-Year Contract Planning Checklist

- ✓ The Last Will and Testament of the player should be updated to stipulate that future payments be assigned to a trust
- ✓ Creation of Irrevocable Life Insurance Trust (ILIT)
- ✓ Obtain Sufficient Life Insurance To Be Held in ILIT

MLB Benefits

As an active member of the Major League Baseball Player's Association a player's family will receive the following benefits at the time of the player's death.

Life Insurance

- If you are an active member at the time of your death, your beneficiary will receive **$450,000**. For life insurance and AD&D purposes, an active member includes any player on a Major League club's 40-man roster at any time during a championship season. Benefits are paid as soon as the appropriate claim forms are filed and processed.
- *Exclusions*
  - Benefits also are not payable if you are intoxicated at the time of the accident and are the operator of a vehicle or other device involved in the accident. "Intoxicated" means that your blood alcohol level equals or exceeds the level at which there would be a legal presumption of intoxication in the jurisdiction in which the accident occurred.
  - the voluntary intake or use by any means of:
    - alcohol in combination with any drug, medication, or sedative
    - any drug, medication, or sedative, unless it is either taken or used as prescribed by a physician, or an "over the counter" drug, medication, or sedative taken as directed

Accident Insurance

- If you have an accidental injury that is the direct and sole cause of death or certain other serious injuries while covered by the Life Insurance Plan, the insurer pays a benefit of **$1.05 million** to your beneficiary.
- The insurer pays benefits if you suffer a covered loss (as described in "Covered Losses") anytime within 12 months of the accident:
  - as the direct result of injuries received in an accident; and
  - that is unrelated to other causes.
- *Exclusions*

    - Benefits also are not payable if you are intoxicated at the time of the accident and are the operator of a vehicle or other device involved in the accident. "Intoxicated" means that your blood alcohol level equals or exceeds the level at which there would be a legal presumption of intoxication in the jurisdiction in which the accident occurred.
    - the voluntary intake or use by any means of:
        - alcohol in combination with any drug, medication, or sedative
        - any drug, medication, or sedative, unless it is either taken or used as prescribed by a physician, or an "over the counter" drug, medication, or sedative taken as directed

Pension Plan: Widow's Benefit

- A widow's benefit from the Pension Plan for your qualified spouse—in addition, a benefit may be payable for your eligible dependent children.
- Your qualified spouse receives a benefit based on your credited service and your retirement Class at the time of your death. The benefit is determined as if you had started receiving retirement benefits at your normal retirement age. Your qualified spouse receives a benefit equal to:
    - the fixed benefit payment that would be payable to you at your normal retirement age based on your retirement Class and your years of credited service when you died;
    - plus
    - the dollar amount shown in the assumed variable benefit table that would be payable to you at your normal retirement age based on your retirement Class and your years of credited service when you died. The assumed variable benefit your spouse receives is the dollar amount shown in the assumed variable benefit table—it does not change.
- Payment of the widow's benefit begins on the first day of the month following your death. Monthly payments generally end with the check for the month in which your widow dies unless your dependent children are eligible for continued benefits as described below.

Vanguard 401(k) Investment Plan balance

- If you die before benefits begin, your beneficiary is entitled to receive your Investment Plan account balances. At your beneficiary's election, payment will be made in the form of a total or partial lump-sum distribution or in installment payments. The timing of the payment depends on who your beneficiary is.

- **If your beneficiary is your surviving spouse,** payment will begin by December 31 of the calendar year following the calendar year in which you died, or by December 31 of the calendar year in which you would have reached age 70-1/2 (if that date is later).
- Alternatively, your surviving spouse may elect to roll your Investment Plan account balances over to a traditional IRA, Roth IRA, or another employer's eligible retirement plan, provided the distribution is an eligible rollover distribution.
- **If your beneficiary is not your surviving spouse,** payment will begin by December 31 of the calendar year following the calendar year in which you died. A beneficiary other than your surviving spouse may elect to roll the account balance over to an IRA or Roth IRA that is treated as an inherited IRA.

Recommendation For All Players

Setup Your Estate Plan

Estate planning provides you with the ability to spell out, in specific legal language, your wishes and intentions, how you want those wishes carried out, and by whom you want them carried out. If any of the following are important to you and your family, you need an estate plan:

- You want to maximize the amount of your money and assets that will be transferred to loved ones.
- You want to minimize the taxes your beneficiaries must pay on those assets.
- You have minor children and want final say in who serves as their guardian(s), should you (and/or your spouse) die prematurely or unexpectedly.
- You want to minimize the emotional and financial burden placed upon your heirs, while minimizing feuding among heirs over your estate.
- You want to avoid the cost and delay of probate.

What happens if you don't have an estate plan?

The reality is that going through life without an estate plan can be a disaster for your loved ones, and for yourself. **No player is too young to warrant skipping this important process.**

When a player neglects to setup an estate plan, they are choosing to let the state in which they reside dictate what happens to their assets. Not only can your wishes of who gets what be thwarted, but this process can also bring additional legal costs, taxes, delays, and frustrations to your heirs.

Read our comprehensive guide, "Estate Planning 101: Cover All The Bases."

Obtain Life Insurance

Most people don't think about buying life insurance when they are young, healthy and single. However, if something should happen to you unexpectedly, a life insurance policy could pay for your student loans or other large outstanding debts, as well as your funeral expenses. These are never fun things to think about, but evaluating risks is a first step to preparedness.

Another good reason to consider buying life insurance at a younger age is to lock in rates. The affordability of life insurance is based largely on your age and risk factors, and life insurance for adults becomes increasingly expensive. While you are young and healthy, you will pay lower premiums. With short term insurance you can choose a lock-in term, such as 15 or 20 years at a preferred rate.

It is important to know that many term policies can be converted into permanent policies later on, without having to re-qualify. If you develop a severe or chronic condition at any point, your life insurance is already secured. Essentially you can insure your insurability.

Life insurance causes more confusion for people than perhaps any other type of insurance, partly because there are several different types of life insurance products, and partly because the best life insurance is unique to each individual. To ensure you are receive advice that is in your best interest we encourage you to work with a Certified Financial Planner™ (CFP®) who is held to a fiduciary standard.

Conclusion

By properly implementing these core planning strategies-- and when required, advanced planning -- the associated benefits far outweigh the uncertainty associated with failing to act. Further, the upfront expenditure of time and money will routinely be far less than the time, energy, and costs associated with probating your estate and potential unexpected tax liabilities. Most important, though, is the emotional and financial security that proper planning provides to your loved ones.

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The Athlete Wealth Management Group is a Family Office providing professional athletes coordinated financial planning in addressing their cash management, tax, investing, insurance, and estate planning needs.

Headquartered in Los Angeles, AWM serves as your personal Chief Financial Officer in helping you navigate the complexities of wealth so you can remain focused on your career, passions, and loved ones.

Company Facts

34 Years of Athlete Wealth Management Experience
$1.2 Billion Assets Under Management

Client Profile

51 Major League Baseball Players
32 1st Round Draft Selections
28 Median Age

Advisor Experience

4 Former Professional Athletes
10 Certified Financial Planners (CFP®)
3 Certified Public Accountants (CPA®)
3 Chartered Financial Analysts (CFA®)