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Derek Jeter Needs You!

The keys to insuring professional athletes and other multimillionaires with short careers, and the rewards and pitfalls of serving this high-profile client niche.

I love baseball. Having been born in New York City, the Yanks are my team. Derek Jeter is our captain, and he is a New York baseball icon. With the All-Star Game behind him and the second half of the 2010 baseball season under way, Jeter only has a few months left on his current Yankees contract—he has played his entire career for the team. Speculation is rampant about his next contract, which according to rumors, could pay him anywhere from \$200 million over 10 years to a more likely three-year deal worth \$60 million.

While I don't have reliable inside information about the negotiations, I do know that Derek Jeter needs you—even though he's in the minority as a level-headed, financially savvy sports star.

Why you?

If Jeter suffered a serious disability today, it would cost him tens of millions of dollars in future earnings, and that's being conservative. Sure, the Yankees are contractually obligated to make good on the balance of Jeter's 2010 contract, but if he suffered a serious injury, he could seriously jeopardize his chances of landing a guaranteed \$60 million contract.

We are talking about a 36-year-old professional baseball player with a lot on the line. Even a torn shoulder, elbow or anterior cruciate ligament in the knee, which would not cause most of us to miss more than a few days of work, could be career-threatening to Jeter. What he needs is a specific disability insurance policy to protect him from right now until the date he signs a new Major League Baseball contract (with the Yankees, I pray). At that point, he will have a guaranteed contract that in all likelihood will take him to the end of his career and the disability risk/exposure will fall to the team.

Different economics for different sports

When working with professional athletes, different sports have different economics. As an advisor, your responsibility is to protect the player's interests and future. As is with any successful professional, an athlete's greatest asset is his or her ability to play his or her sport and work in his or her occupation. Given the pro athlete's compressed career life span, disability insurance protection is the most critical form of insurance any player can own.

Key Takeaways

- Given the pro athlete's compressed career life span, disability insurance protection is the most critical form of insurance a player can own.
- A pro athlete's disability income insurance needs—and policy terms—differ greatly from even the highest-earning white-collar professionals
- If you want to break into this market, it's essential to cultivate relationships with reputable underwriters and sports agents.
- Many advisors get into this business because of their love of sports, only to exit after a few years out of frustration. While some athletes are financially savvy, many are unsophisticated about financial matters, and you can't cherry-pick referrals received from sports agents.
- Different sports have different economics when it comes to disability insurance. Full disclosure is the key to underwriting these policies.

Sport-specific insurance needs

Before jumping into this high-profile advisory niche, it's important to understand the unique insurance variables pertaining to each high-salary professional sport.

Baseball, Basketball and Hockey: Major League Baseball, National Basketball Association and National Hockey League contracts are generally guaranteed for both death and disability risks. Disability insurance is critical for marquee players who have considerable endorsement income. It is usually purchased at maximum available levels when players are headed into free agency and are expected to sign large multiyear/multimillion-dollar contracts. Collegiate athletes with first- or second-round draft pick expectations need to secure protection against a disability that will prevent them from signing a professional contract in their intended sport.

Football: The average National Football League career is three years. That's right. Three years. Most players fail to achieve similar earnings outside of the gridiron any time soon after they hang up their cleats. Except for a handful of truly standout players, contracts are generally NOT guaranteed and the only real "guaranteed" money that is commonplace in the NFL is upfront "bonus money." Advisors working with NFL players should secure disability income protection to protect their expected income. If such clients can't play, they won't get paid, so advisors and players need to be diligent purchasers of disability protection.

Golf and Tennis: There are no guarantees in golf or tennis outside of whatever might be negotiated with a sponsor. Professional Golf Association and Association of Tennis Professionals players ranked in the Top 100 are generally considered insurable by the underwriters in this space. Advisors working with athletes in these sports should seek as much coverage as the player's income can support.

How disability income insurance works

Unlike traditional disability income insurance that you might sell to a 27-year-old attorney, business owner or dentist, the disability contracts that pro athletes secure are a whole different ballgame. Generally speaking, professional athletes secure career-ending disability insurance protection—most commonly with a one-year elimination period and benefits payable in a lump sum if the player suffers a disability due to either accident or illness (either on or off the field). Coverage is usually underwritten for a single-year period each time, and then the player needs to reapply each year. The underwriting requirements are much more "orthopedic" in nature, and if the amount of insurance exceeds a few million dollars, most competent underwriters will require an orthopedic surgeon to conduct an exam. Some players (depending on age, contract, sport, position, etc.) may be able to secure disability protection on a multiyear basis, but these multiyear insurance contracts are not available to most "rank and file" professional athletes.

What to look out for

Full disclosure. Most athletes suffer some type of injury during their careers. Full disclosure is critical to the successful underwriting of these policies. Advisors looking to break into this market need to make sure they read these insurance contracts carefully. If you insure a player and his occupation is listed as "professional baseball player," then you have a totally different contract than if you underwrote an identical policy on the same player but listed his occupation as "Major League Baseball player." The point is, if your player suffered an injury that sent him to the minor leagues, he is still playing professional baseball and coverage afforded under the first contract could be questionable.

Broad exclusions. Watch for overly broad exclusions. Pre-existing injuries that have resulted in any lost field time over the previous few years are sure to result in an exclusionary rider. Do your best to limit the impact of the rider. If your client is out with a back problem, try not to settle on a "full back exclusion"—see if you can get the exclusion limited to the problem area (e.g., cervical spine).

Direct underwriter relationships. Find a reputable underwriter for this class of business. In the United States, we have a handful of firms that know what they are doing and can offer you good products, advice and

assistance. It behooves you and your client to maintain a direct relationship with such firms as opposed to going through an intermediary. Remember, this is a claims-intensive business, so reputation is critical. Our recommended priority order is claims first, form second and price third.

Who drives advisor relationships? Sports agents are the No. 1 influencers in this market. If you want to break into this market, start cultivating relationships with sports agents. Some agents have in-house financial services capabilities, but most rely on outside partners. The first step is to win the confidence and trust of a few reputable agents, and then do your best to imbed your practice within their practices.

Pitfalls of professional athlete advisory work

Professional athletes are the biggest group of unsophisticated millionaires you will ever come across. Many advisors get into this business because of their love of sports, only to exit after a few years out of frustration. Your advisory team must focus on the unique nature of the athlete's career and his or her earning life cycle. Obviously, you are in the AUM business too—just look at the statistics very carefully before you dedicate a meaningful part of your practice and your time to these athletes. They earn a ton of money, and many spend it all too fast.

A recent report from *Sports Illustrated* and the NBA Players Association, among others, said that roughly 70 percent of all professional athletes are broke or in financial straits within five years of ending their playing careers. That's right. Seven out of ten, and the real number is probably higher. When you start cultivating sports agents, one challenge is that you can't "cherry pick" players. You need to take the smart, level-headed Derek Jeters of the world along with those players who won't take—or follow—your advice.

Above all else, document everything you do for these clients. Remember, the higher the profile, the greater their access to the media, so make sure your files are in exceptional order.

About the Author

Edward A. ("Ted") Tafaro, President & CEO of Mahwah, New Jersey-based Exceptional Risk Advisors is one of the country's foremost experts on high-limit specialty life, accident and disability products for clients with exceptional insurance needs – including celebrity athletes, entertainers, highly compensated executives, entrepreneurs, and professionals.

