

Understanding the Insurance Keeping Athletes in Play

By: Sean Callaghan

“The fact is, every time an athlete steps on a baseball field, basketball court or ice rink, they face the risk of a career-ending injury. This makes disability insurance every bit as important to protecting the livelihood of an athlete as a football or batting helmet.”

Sean Callaghan, Client Advisor & Sports Specialist

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There is probably no greater illustration of "human capital" than the star athlete. The body that allows him or her to throw a football 60 yards with pinpoint accuracy, slap a puck 100 miles per hour, throw a baseball with a devastating curve and put a ball nine inches in diameter through a hoop barely twice that size from over 20 feet away, is an asset that can be worth hundreds of millions of dollars in the sports industry.

With such value, however, comes the need for insurance, particularly disability products that protect athletes if they are seriously injured or incapacitated.

The athlete's body—which by the nature of sports is often in harm's way—should be protected by financial advisors if the their client's payday gets taken off the table due to an injury.

Even in Major League Baseball, where contracts are guaranteed, relatively ironclad and average in the neighborhood of \$4 million, athletes can suffer tremendous loss if they're not protected. That's because many athletes, particularly standout rookies, usually have to wait until their second or third contract for the large contract that adequately compensates them for the skills they bring to an organization.

Athletes often accept under-

valued contracts until that day arrives, but at what risk?

Take the example of Washington Nationals pitcher Max Scherzer. He turned down a \$144 million offer from the Detroit Tigers in the last year of his contract, opting instead to take a gamble playing out the last year of his contract, looking ahead to a big payday as a free agent. Scherzer's confidence was surely buttressed by an insurance policy he purchased to cover any potential lost earnings in the event he suffered a significant injury or illness before reaching free agency. The policy provided the pitching ace with protection against a career ending injury or illness

with a \$40 million benefit, as well as up to \$40 million if he suffered an injury or illness that directly prevented him from receiving an offer below the Tigers' original \$144 million proposal. Scherzer was covered if he injured his shoulder, had to undergo Tommy John surgery on his elbow or just about any other significant injury or illness. The policy cost him \$750,000.

"I was going to have enough money for the rest of my life regardless of what was going to happen," Scherzer told *Fox Sports*. "Once you took the injury-risk factor out of it, and you can just go play baseball and not have to worry about anything . . . I was set. When you combine that with the fact that I've already made some money in my career, you're talking fifty-plus million in the bank. I think I'm going to be fine." Scherzer went on to sign a seven-year, \$210 million contract with the Nationals in January.

Like any successful professional, whether it is a corporate CEO, high-end surgeon or a celebrity TV chef, an athlete's greatest asset is his or her ability to successfully and consistently provide standout performance. But given their short careers, athletes are probably more critically in need of adequate disability insurance protection than perhaps any other high-income professional. Disability insurance, for example, is critical for marquee athletes with considerable endorsement income—athletes like

Denver Broncos quarterback Peyton Manning or tennis star Roger Federer—and is usually purchased at maximum available levels when players are headed into free agency and expected to sign large multi-year, multimillion-dollar contracts.

For example, you would think that the Cleveland Indians held all of the leverage in their long-term contract talks with right-handed pitcher Corey Kluber, the reigning American League Cy Young Award winner, this past off-season. Kluber had just turned 29 and was still a year away from arbitration. With his advanced age and relatively low earnings, the conventional thinking would be that he would not want to risk relying on year-to-year contracts. In the past, the only way for Kluber to secure long-term financial security would have been by signing with the Indians as quickly as possible.

But he had other options:

- Sign long-term with the Indians, assuring immediate security but losing the chance for an even bigger payday one year later in free agency.
- Purchase a disability policy with loss-of-value (he could borrow from a bank to pay the premium and pay only the interest out of pocket), but forfeit an immediate life-changing guarantee. Purchasing a disability policy with loss-of-value similar to what Max

Scherzer did would have protected him against injury and illness in 2015. And although a disability policy with loss-of-value is more expensive than stand-alone disability insurance and often harder to secure, the idea would be the same: Buy peace of mind and then seek an even bigger payout the following year.

The disability insurance option would have been a win-win, but sometimes a player decides to go for the sure thing. With just a few days before the opening of the 2015 season, the Indians and Corey Kluber agreed to a five-year, \$38.5 million contract—a bargain price for a Cy Young Award winner when compared to players such as pitcher James Shields, who has never won a Cy Young Award, but who walked away with a contract valued at \$75 million over four years.

Organizations and their players don't always have the same incentives. Teams obviously don't want their star attractions to suffer career-ending injuries or illnesses, but teams realize they can save money if their players experience a small dip in production when it comes time to draw up the next contract.

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