Wealth Optimization for Professional Athletes and Entertainers





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Congratulations! Your countless hours of hard work and personal sacrifices have paid off. Using the unique skills you developed along the way, you are now among an elite group of individuals who can practice their sport or craft as a paid athlete or entertainment professional.

The physical and emotional skills that you used to build your career and create your wealth are very different from the financial skills that are needed to help preserve and grow it. Every financial decision you make today will affect you and your family's future.

Just as your professional career has started, so has your wealth building journey. This means creating a wealth management strategy that will allow you to live the life you have always wanted and pass wealth down to the heirs and charities of your choosing. Your Merrill advisor will help you with these decisions by delivering cutting-edge wealth planning advice and investment strategies, helping to keep you on track as you focus on your profession and your future.

Powerful ways Merrill can help

We recognize that you are a sports and entertainment "business enterprise."* Like a chief executive officer or president of a well-run company, you will need to delegate critical tasks to trusted individuals so that you can concentrate on other things — like winning the next game, writing the next song or rehearsing for the next performance.

Successful businesses typically deploy teams of experts to handle complex tasks like investments, taxes, insurance, lending/banking needs and reporting obligations. This is so each employee can contribute their expertise to the business to help make it as successful as possible. As the CEO of your "business," think about how you can bring in the right people for the right tasks.

By working with your Merrill advisor, you'll have access to the full breadth of our global guidance, services and solutions through a single point of contact. Your Merrill advisor will use the in-depth research and cutting-edge tools to create and help manage a comprehensive wealth management plan tailored specifically for you and your family. The more we can do for you, the more you can concentrate on your sport or craft — and personal life.

* The use of the term "entertainers" in this paper is meant to describe a broad spectrum of talent, including, but not limited to: actors, artists, choreographers, comedians, dancers, designers, directors, magicians, musicians, producers, screenwriters, singers, songwriters and writers.

Sophisticated strategies designed with you in mind

Your Merrill advisor can provide access to a range of financial offerings. However, we know that you don't need everything listed here all at once. Your Merrill advisor, at the forefront of their advice, will work with you to assess what you need and when you need it.

Focusing on you

- Goals-based wealth management[1]
- Investment management[1]
- Financial statement (budgeting/forecasting) reporting[1]
- Online account access, bill pay and fund transfer[1]
- Lifestyle financing (such as planes, yachts, art & collectibles)[2]

Investing towards your goals

- Core equity & fixed income portfolios[1]
- Private placements[1]
- Hedge funds[1]
- Alternative investments[1]
- Concentrated stock[1]
- Retirement strategies[1]

Leaving a philanthropic legacy

- Donor advised funds[2]
- Charitable planning[1]
- Charitable trusts:[2] Charitable lead trusts & Charitable remainder trusts[2]
- Private foundations[1]
- Gifting strategies[1]

Accessing cash when you need it from Bank of America[2]

- Major asset financing
- Home financing solutions
- Loan-based diversification strategies
- Credit cards
- Custom credit solutions

Navigating risk

- Portfolio risk management strategies[1]
- Property & casualty insurance reviews[1]
- Life insurance trusts[2]
- Wealth replacement trusts[2]
- Asset preservation strategies[1]

Passing on wealth efficiently

- Personal trust services[2]
- Life insurance trusts[2]
- Estate settlement and administration[2]
- Family wealth education & governance[1]
- Family office solutions[4]

Managing the impact of taxes

- Insurance planning & services[3]
- Tax loss harvesting strategies[1]
- Philanthropic giving[2]
- Income deferral strategies[1]

[1] Merrill Lynch, Pierce, Fenner & Smith Incorporated (also referred to as "MLPF&S" or "Merrill") makes available certain investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation ("BofA Corp."). MLPF&S is a registered broker-dealer, registered investment adviser, Member SIPC and a wholly owned subsidiary of BofA Corp.

[2] Banking, mortgage and home equity products offered by Bank of America, N.A., and affiliated banks, Members FDIC and wholly owned subsidiaries of Bank of America Corporation.

[3] Merrill Lynch Life Agency Inc. ("MLLA") is a licensed insurance agency and wholly owned subsidiary of BofA Corp. Insurance and annuity products are offered through MLLA, a licensed insurance agency.

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“Thank you” trap

We recognize that you didn’t do it alone — that you’re most likely where you are today because of the support of so many wonderful individuals. However, unless those people possess certain specialized skills, licenses and experience, you should avoid the temptation to fill certain financial roles with family members and friends as a way to thank them for their support. Unfortunately, assigning key money-related roles to family members and friends has been known to produce improper oversight, fraud, conflicts of interest, self-dealing and personal biases into the decision-making process.

Using a team of licensed financial professionals like our advisors at Merrill can help you identify and reduce or eliminate these risks.

Selecting Merrill vs. Family/Friends	Professional	Family/ Friend
Subject to personal biases	No	Yes
Compensated	Yes	Yes
Serving as wealth manager is their "professional calling"	Yes	No
Vast resources/worldwide footprint	Yes	No
Experience serving clients in the sports and entertainment industry	Yes	Likely no
Access to investment, philanthropy, lending and trust planning services through a single point of contact	Yes	No
Held to highest fiduciary standards under the law	Yes	Yes
Permanence — life span is multi-generational and perpetual	Yes	No
Subject to government oversight and recurring internal audits	Yes	No
Expert in investment reporting	Yes	No
Available any business day of the year	Yes	No
Teams of support staff	Yes	No

“Our team of licensed financial professionals at Merrill can help you with long-term wealth management strategies for both your professional and personal career.”

Greg McGauley,
Managing Director
Head of Merrill Private Wealth Management

Are your current advisors up to it?

Once anyone begins to enjoy a certain amount of financial success, the complexities that can swirl around financial decisions can be overwhelming. That's because for most people who did not grow up wealthy, the issues that higher levels of wealth present are completely novel — not only to the individual making the money, but often to their current advisors, whose skill level or experience falls short of their clients' new wealth.

Athletes and entertainers have unique planning issues. They need access to wealth advisory firms, like Merrill, that have the support of specialists in many different disciplines (as highlighted on page 4).

Checklist for selecting or retaining a wealth advisor*

- **Is your advisor someone who can adequately educate you and your family?**
- **How many (and what types of) clients does your advisor serve?**
- **Who is on the advisor's team, and what is their level of experience?**
- **What is the range of services provided by your advisor?**
- **How does the advisor charge for services?**
- **Has the advisor asked about the purpose of your wealth?**

* *A Guide to Navigating Newly Created Wealth*, Merrill's Center for Family Wealth™ (April 2024).

A focus on financial education

A common thread that exists for many sports and entertainment professionals is their general unfamiliarity with investment management, tax planning, asset preservation and estate planning. This is quite normal given that they have likely been focusing most of their time and effort on becoming successful in their fields.

However, as you start making money and accumulating wealth, it is critical for you to acquire some basic financial skills — to understand the planning issues that may have a meaningful impact on your family's standard of living both now and in the future. It's important to build a good foundation to understand how your money works best for you.

To assist you in getting up to speed and staying abreast of what matters most in your financial life, Merrill has a vast library of educational tools at your disposal, including: videos, checklists, calculators, assessment tools and a wide array of digital content and resources.

Snoop Dogg

"If you stop at general math, you're only going to make general math money."

Source: U.S. News, November 17, 2009.

Resources for you

- Ongoing, timely Bank of America Chief Investment Office (CIO) *Market Updates*
- Extensive global research[1] on a wide variety of economic, investment and tax law change considerations
- Topical wealth planning whitepapers (Retirement, Divorce, Life Insurance, Family Governance, Art & Collectibles, Private Foundations, Education Funding, Exit Planning for Private Business Owners, Non-Fungible Tokens, Hedge Fund Strategies & Alternative Investments and more)
- Topical investment whitepapers (Investment Trends, Portfolio Strategies, Today's Market, Finances and more)
- National client calls
- Topical client seminars
- Financial education "boot camps" (skill-building & peer-sharing) in partnership with top universities like Wharton, Georgetown and UCLA
- Customized training based on a family's need or request

See back page for additional disclosures.

A difference in planning approaches

While athletes and entertainers share many of the same challenges when managing their wealth and personal careers, there are usually stark differences between these groups regarding timing and sources of income. Your advisor will consider these differences when helping you build a customized strategy.

Professional athletes in U.S.

17,000

Age

20–30 years old

Career lifespan

3.5–9.5 years

Source: U.S Bureau of Labor Statistics, February 7, 2024.

Athletes

According to the *U.S. Bureau of Labor Statistics,** there are approximately 17,000 professional athletes in the United States. The majority of these athletes do not hold second jobs: Their sports activities are their sole source of income. Most professional athletes are between 20–30 years old, with careers that only last from 3.5 to 9.5 years. Most of their income is earned in the middle and latter parts of their careers. To make planning even more challenging, an athlete's income cannot be fully counted on because it is often subject to interruptions and/or reductions — due to injuries, poor performance, on-the-field and off-the-field personal conduct clauses, lockouts and salary caps. These inherent risks should be factored into every professional athlete's planning.

Compared to other professionals, an athlete's earnings are highly concentrated among a few short years in the early part of their lives. Therefore, the greatest challenge for any athlete is how to build enough wealth during their career to continue their lifestyle after retirement. Since most athletes retire by the time they are 30, they should draw up financial plans (in theory) that are designed to make their savings last for another 50 years — taking into account the various opportunities to earn money after retiring from their sport.

Because athletes finish their professional careers comparatively early in their life span, many transition into second full-time careers. For some athletes, these second careers are directly related to what they did as professional athletes (for example, coaching or sports analyst) — while in other cases, their second careers have nothing to do with their sport (such as a restaurateur, politician or real estate developer).

Jameel McClain of the Baltimore Ravens

"It's always going to be a challenge to tell someone, 'The moment you get in, you should be thinking about getting out of it.' I don't want to doubt anybody's drive or ability, but I want to give them the reality and make it a little less harsh."

Source: Baltimoresun.com, Sept. 13, 2019.

** Source: U.S Bureau of Labor Statistics, February 7, 2024.*

Entertainers

According to the *National Foundation for the Arts*,* there are approximately 2.6 million entertainers in the United States. Most of these entertainers have a second job. They usually have modest incomes from their crafts in the early years, and tend to earn and save more in later years. Compared to professional athletes, entertainers tend to have longer careers, often spanning decades. But unlike athletes, their earnings tend to be sporadic — and come mostly in the latter part of their careers.

Earnings profile over time

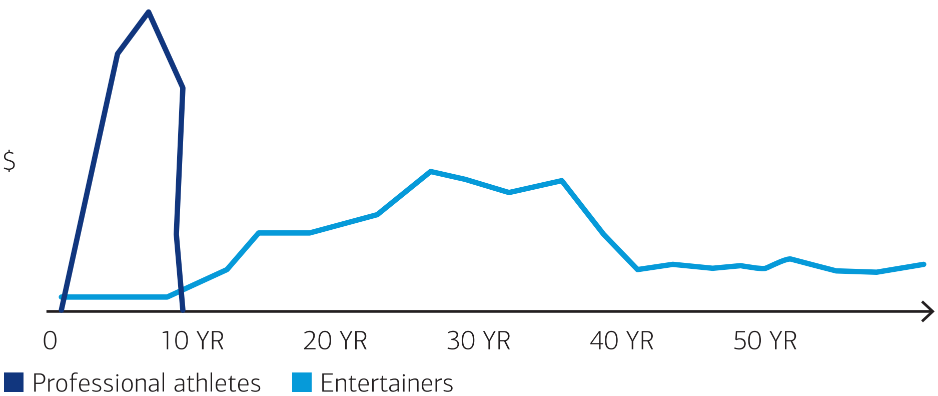


Chart is for illustrative purposes only.

It is never too early in your professional career to think about what comes next. Putting together a succession plan now can help alleviate some of the fear and anxiety that may arise when you voluntarily or involuntarily stop doing the only thing you've done for most of your life.

2nd Career: Retirement

Many athletes and entertainers embark on a second career after their playing days or gigs come to an end. While these individuals may adjust to another career in the same industry, others move on to an entirely different business. However, these second careers likely will not have the same income stream as their first careers. Working with a Merrill advisor will help you plan accordingly for a second career and offer asset preservation strategies to help make your wealth last as long as possible.

Entertainers in U.S.

2.6 million

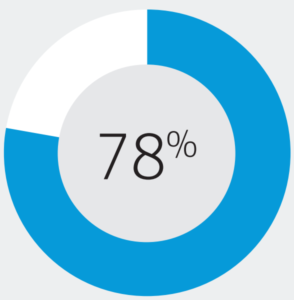
Career lifespan

Decades

Source: Artists and Other Cultural Workers: A Statistical Portrait, National Endowment for the Arts, April 2024.

** Source: Artists and Other Cultural Workers: A Statistical Portrait, National Endowment for the Arts, April 2024.*

Tips for rookies and fledgling entertainers



Professional athletes who file for bankruptcy within 5 years.

Source: Fox Business News, February 2022.

Assemble a team of qualified professionals

A successful team or group includes a variety of people who are experts in their chosen fields, working together toward a common goal. Your financial advisors should operate in the same way in supporting your goals. For example, when purchasing life insurance, it is often necessary to engage a trust and estate lawyer, insurance specialist, trust company specialist and financial planner. This team can assist you with determining the size and type of the policy, the best carrier and policy for your stated goals, and the most tax-efficient way to own and administer the policy. So when you pull together trusted persons to rely upon, we suggest you build a deep bench of professionals that also includes:

CPA	Financial advisor	Investment manager
Trusts and estates lawyer	Life insurance specialist	Property and casualty insurance specialist

The importance of a budget

The number of professional athletes in the U.S. who file for bankruptcy within five years of leaving their sport is a staggering 78%. Unfortunately, overspending and overestimating the number of years they could remain in their sport have caused many well-known athletes to lose it all. This does not have to be you! By using some basic financial tools and practices, you can avoid being part of this unfortunate statistic.

- Create a balance sheet, cash-flow summary, income and expense summary (know what you earn after taxes — and keep track of what you spend, a.k.a. your "personal burn rate")
- Establish savings goals (have a realistic view of your earnings potential and estimated years in your profession)
- Participate in qualified and nonqualified retirement plans
- Avoid going into debt (pay off mortgages, credit cards, personal lines of credit, student loans)
- Manage your existing debt efficiently
- Save more than you spend, and avoid supporting an entourage of people before you have put away savings for yourself
- Avoid making large luxury purchases and "keeping up with the Joneses" (buying expensive cars, boats, planes, jewelry and houses)

If you are an entertainer in the early part of your career, chances are you're not making much money from your hard work. That's why it's important to have a process in place to save money for those "rainy days" between gigs, until your cash flow becomes larger and more dependable. As you slowly build your net worth, you can devote some of your excess capital — if not needed for expenses or rainy-day savings — to making investments for the future.

Pay your federal *and* state income taxes

Perhaps more than any other group of professionals, athletes and entertainers tend to have varied and complex sources of income. That income can be a challenge to report properly to the state and federal taxing authorities. You want to get your tax filings correct from the start!

Multiple revenue streams

Signing Bonus	Incentives	Endorsements
Licenses	Salary	Performance Bonuses
Deferred Compensation	Merchandise	Contingent Compensation
Sponsorships	Appearance Fees	Residuals
Royalties	Social Media Platforms	NFTs

The jock tax

State level income tax filings tend to make tax compliance for athletes and entertainers very complicated. Athletes and entertainers can be subject to state income taxes in multiple states for services performed in those states. For example, a National Football League player can expect to file between 8 to 12 non-resident state income tax returns a year. A National Basketball Association player can expect to file between 16 to 20 non-resident state income tax returns a year.* This multi-state income tax liability is often referred to as the "**jock tax**" but it can apply to any person who performs services in more than one state if certain income and/or presence thresholds are reached. Each state with an income tax will have its own rules as to when its income tax law applies.

Will Rogers

> "Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like."

Source: Albuquerque Journal, 1975.

** Source: Andrew Osterland, CNBC; State Tax Departments Set their Sights on Pro Athletes' Earnings (Jan. 11, 2021).*

If you are single and contemplating marriage, you should also consider putting a prenuptial agreement in place — to protect your current and future net worth from a potential divorce.

Merrill has gathered insights and created tools meant to help guide you and your future spouse through this process, like the Merrill Center for Family Wealth's *Tying a Better Knot* and *Taking the Taboo out of Money and "I Do."* Ask your advisor for these resources.

Signing bonuses are typically taxed on the federal level and in the state where the athlete lives. Consequently, establishing residency in low or no state income tax states like Florida or Texas can avoid having to pay state level income taxes on a huge signing bonus. However, not all bonuses are created equal. Bonuses that are paid for completing a service (such as winning an Oscar, voted MVP, winning a batting title) can be subject to state income tax in multiple states if such services were performed in those states.

Underpaying or not paying the proper amount of taxes owed will subject you to fines, penalties and interest — and sometimes those penalties can be greater than the amount of unpaid taxes. Once you are in arrears with payments owed to the IRS and state taxing authorities, digging yourself out of back taxes, penalties and interest charges can be extremely difficult and expensive. In some instances, failure to pay taxes can lead to criminal penalties. In fact, that's how the infamous gangster Al Capone was eventually put behind bars.

Unfortunately, there are not many legal options available that can shelter your salary and bonuses, but there are strategies you can consider. Your Merrill advisor can bring a team of planning specialists — who can lay out options for you and your tax advisors to consider.

Basic estate planning documents

Every professional athlete and entertainer should have a set of basic estate planning documents that address what will happen upon their death or if they become incapacitated. These documents are crucial because they inform people what to do with your property or your body if you are unable to tell them.

Last will and testament
(or "pour-over" will plus revocable trust)

Durable power of attorney
(allows someone other than you to make financial decisions for you when you can't)

Advance health care directive
(allows someone other than you to make medical decisions for you when you can't)

Max out your retirement savings options

Most professional players associations in the U.S., and many of the entertainment guilds/associations, offer their members the ability to make annual contributions to a qualified retirement plan such as a **401(k) plan**. These tax-advantaged savings vehicles provide numerous benefits. When you make pre-tax contributions to the plan, your taxable income in the year of contribution is reduced — potentially resulting in less income taxes for that year. While your pre-tax money is invested in the 401(k) plan and has the potential to earn income, that income will not be subject to federal income tax. Also, most states have laws that protect 401(k) assets from the participant's creditors. Depending on the terms of your plan, you can control the investments in the account, and you control when you withdraw money from the account. It's only when you withdraw that you have to pay ordinary income tax on the amount of the distribution. In addition, withdrawals made before age 59½ are generally subject to an additional 10% federal income tax, unless an exception applies.

You should be aware of whether your association or guild offers a pension plan, how it works, and how best to use it in conjunction with other retirement plans like 401(k)s and individual retirement accounts (IRAs). **Pension plans** are another type of qualified retirement plan offered by some employers. Generally, these plans provide participants with an accrued benefit usually payable as an annual or monthly payment over a period of years, usually for life, that typically start at a specified time (usually when the participant reaches "normal retirement age" as defined under the applicable plan). Pension plans may permit distributions to commence before normal retirement age, and in some cases before reaching age 59½. To qualify, each player or entertainer must satisfy their plan's specific qualifications and vesting rules. The accrued benefit is determined under the plan's accrual formula and tends to be based on how long the employee works for the organization.

Another retirement solution typically available to entertainers — because they are usually self-employed — is to fund a simplified employee pension called a **SEP-IRA**. Just like IRAs, SEP-IRAs are tax-advantaged income deferral solutions that have been authorized by Congress. Distributions are taxed under federal ordinary income tax rates, and any distributions prior to 59½ would be subject to an additional 10% tax. Your Merrill advisor can work with you to determine which plans are available to you and which one may best support your goals.

401(k)	SEP-IRA
• Your federal taxable income in the year of contribution is reduced — potentially resulting in less federal income taxes for that year • Pre-tax money will not generally be subject to federal income tax until distributed • Most states have laws that protect 401(k) assets from creditors • 10% additional federal tax for early withdrawals	• Contributions an employer can make to an employee's SEP-IRA cannot exceed the lesser of: 25% of the employee's compensation, or $69,000 for 2024 ($66,000 for 2023, $61,000 for 2022, $58,000 for 2021 and $57,000 for 2020) • Distributions are taxed under federal ordinary income tax rates • 10% additional federal tax for early withdrawals

In 2024, the maximum 401(k) contribution

$23,000

If 50 or over at any time during the calendar year, you can contribute an additional

$7,500

Additional federal tax on withdrawals before age 59½ unless an exception applies

10%

Some employers will match some or all of your 401(k) contributions, which would allow more than

$23,000

(plus an additional $7,500 if 50 or over) to be contributed to your plan in 2024.

While your advisors are here to provide advice and guidance in helping you manage the complexities of your wealth, remember it's your money and it's important you take on an active role in managing it. Make sure to have regular meetings with your advisors to review your financial goals to help you stay on track.

Take ownership of your financial destiny

Managing your wealth does not have to be your second (or third) full-time job. You should, however, devote enough time and attention to your assets, liabilities and investment performance to become well-educated in order to make informed and reasonable decisions.

Scheduling regular meetings with your advisors is a good place to start. Occasionally, these meetings should consist of a number of different advisors from numerous disciplines in order to collaborate and determine an appropriate path forward for you. By establishing short- and long-term goals and objectives, creating benchmarks against which you can measure your advisors' ongoing performance, and checking in with those advisors on a regular basis, you can stay fully abreast of how close you are to attaining your goals — and quickly revisit or correct anything that is not turning out to your satisfaction.

Advanced planning for elite athletes and A-list entertainers

Advanced planning is necessary

Protect your money from creditors and reduce estate taxes

Take advantage of available exemptions

Failure to use up available exemptions before the end of 2025 can cost beneficiaries millions of dollars in estate tax

Estate tax considerations

If you have managed to amass a small fortune, further advanced planning is required in order to protect your money from creditors and to reduce (and sometimes eliminate) estate taxes. For example, the current federal estate tax is 40%. In 2024, federal law exempts up to $13.61 million per person from federal estate tax. That means married athletes and entertainers can shield up to $27.22 million from federal estate taxes. If you die with an estate worth more than these exemption amounts, it may be subject to a 40% federal estate tax on the excess — unless you engage in advanced planning during your lifetime.

For others with estates valued at less than $13.61 million (or $27.22 million for married couples), their estates could be subject to federal estate tax in the future. Under the *2017 Tax Cuts and Jobs Act*, the estate tax exemption amount is scheduled to drop to $5 million in 2026, adjusted for inflation. Based on current interest rates in effect as of the date of this paper, Merrill is projecting that the exemption will drop and be adjusted to $7 million in 2026. This means that if the exemption drops to $7 million per taxpayer in 2026, the estate of a single person above $7 million could be hit with a 40% federal estate tax, and married couples could only shelter $14 million before potentially being subject to estate taxes on the excess. What does all of this mean? For very wealthy persons, failure to use available exemptions before the end of 2025 may cost their beneficiaries millions of dollars per parent in estate taxes.

Philanthropic goals

Individuals who lead or support a specific charitable cause are likely to increase their monetary contributions as their income and net worth grows. Making charitable donations (either one-time giving or over a lifetime) not only helps those in need, but it can also reduce the amount of the donor's taxes that would be otherwise due in the same year as the donation. While most itemized deductions were reduced or suspended under the *2017 Tax Cut and Jobs Act* until 2026, charitable income tax deductions are still valid as long as the donation reaches a certain threshold. Under current tax laws, donors' total itemized deductions must be more than their standard deduction in order to claim the charitable deduction on their tax return — which is $14,600 for single taxpayers and $29,200 for married couples filing jointly in 2024.

Many wealthy athletes and entertainers elect to create their own charitable giving structures, either through a private foundation or a donor-advised fund (DAF). Each option has advantages and disadvantages; the best choice will depend on the goals of the donor. Private foundations are tax-exempt organizations, generally created and funded by an individual or a small group of donors (such as a family). This structure is often a grant-making entity and usually does not engage in fund-raising or grant seeking. Typically, family members serve as the foundation's board of directors, officers or trustees.

Donor-Advised Fund (DAF)	Private Foundation
A charitable giving account that enables the donor to pursue their charitable goals without the administrative expenses of establishing a foundation	Tax-exempt organizations, generally created and funded by an individual or a small group of donors (such as a family)

However, private foundations have specific reporting requirements. In order to create a private foundation, a trust or not-for-profit company must be formed. The new entity must obtain an employer ID number (EIN) from the IRS, and then an application must be sent to the IRS for "exempt status" (via IRS Form 1023). This process usually takes anywhere from six months to two years before receiving a "determination letter." In addition, for charitable income tax deduction purposes, private foundations are treated less favorably than a DAF. A foundation must file an annual income tax return in which it must disclose the names of the directors and officers, the foundation's balance sheet, charitable grants and charitable recipients. Finally, a private foundation is required to pay a minimum of 5% of its asset value each year to charity.

Donors must have itemized deductions that are more than their standard deduction

$14,600
for single taxpayers

$29,200
for married couples filing jointly in 2024.

A donor-advised fund is a charitable giving account that enables the donor to pursue their charitable goals without the legal paperwork of establishing a foundation. This type of account is easy to open and is a very cost-effective alternative to a private foundation. Similar to many private foundations, a DAF is a grant-making entity. However, a DAF account owner does not have to file an annual tax return for the DAF and/or make any other ongoing disclosures regarding the account's balance sheet, charitable grants and charitable recipients. In addition, DAFs are not required to make any charitable distributions during the year. One advantage of a foundation compared to a DAF is that the foundation can specifically choose which organization or group receives the foundation's grant. The donor of a DAF can recommend making grants to specific charities, but the grants are subject to the approval of the fund's sponsor.

	Donor-Advised Fund	Private Foundation
Use/Role	• Minimize operating costs and administrative responsibilities • Provide a training ground for future generations • Create a vehicle that can be used to memorialize a name • Receive distributions from Donor's private foundation	• Due to administrative responsibilities and statutory compliance requirements, generally more cost effective for gifts in excess of $10 million • Create a multigenerational charitable organization • Provide a role for family members and/or philanthropic training/mentoring • Create a vehicle that can be used to memorialize a name
Grant-making	Donor makes grant recommendations that are subject to the approval of the DAF sponsor	Donor has full control over and responsibility for grant-making activities and decisions
Privacy	Donor discretion to grant anonymously	Grant activity is a matter of public record
Taxation	Some excise taxes apply, such as excise taxes on non-qualifying distributions, and excess business holdings	• Excise tax of 1.39% on net investment income • Payments must be made quarterly • Possible additional excise taxes, such as taxation on jeopardy investments, self-dealing and excess business holdings
Required annual distributions	None	Minimum of 5% of asset value used for "eligible expenses" and/or distributions to eligible recipients
Reporting requirements	None for Donor	Must file annual tax return, Form 990-PF
Start-up costs	None	Substantial legal and accounting fees can apply
Income tax deduction	Higher AGI limitations	Lower AGI limitations

Asset protection strategies

As an athlete or entertainer's wealth grows, they unfortunately become more prone to being sued, for legitimate and illegitimate reasons. Successful athletes and entertainers should consider engaging in asset protection strategies that, when implemented properly, can legally shield creditors from their assets and deter lawsuits from ever happening. Remember, any lawsuit, whether valid or not, carries with it "reputational risk," which can have disastrous results like not having your contract renewed, forfeiting deferred payments and losing key endorsements.

Property insurance

The first line of defense is to make sure that you have suitable insurance. This should include having adequate property and casualty insurance like homeowners, automobile, aircraft, boat and umbrella insurance. Generally, the more the family balance sheet grows, the more property and casualty insurance you should consider.

Disability insurance

The second line of defense is to acquire disability insurance in addition to what your employer may offer. Athletes and entertainers have a range of insurance policies to consider that can insure against permanent total disability, temporary total disability, loss of value due to injury, or lack of endorsement(s) due to injury.

Property ownership

The next line of defense is to make sure assets are titled in such a way as to provide maximum protection. For example, in about half the states, spouses are permitted to hold property jointly as "tenants-by-the-entirety" (TBE). This creates a legal fiction that each spouse is the 100% owner of the property for creditor protection purposes. If spouse 1 is sued individually, spouse 2 of the TBE property can assert their 100% ownership and block the creditor from the asset. Conversely, if spouse 2 is sued individually, spouse 1 of the TBE property can assert their 100% ownership and block the creditor from the asset. Unfortunately, the creditor protection afforded by holding assets as TBE is imperfect. For example, if both spouses are sued *jointly*, then property held as TBE offers no protection. Additionally, TBE protection only applies to *married* persons. Single individuals must look to other asset protection solutions. Additionally, if married persons hold property as TBE and they divorce or one spouse dies, the TBE protection ends.

Protect your assets

Any lawsuit, whether valid or not, carries with it "reputational risk" that can cause harm you or your family.

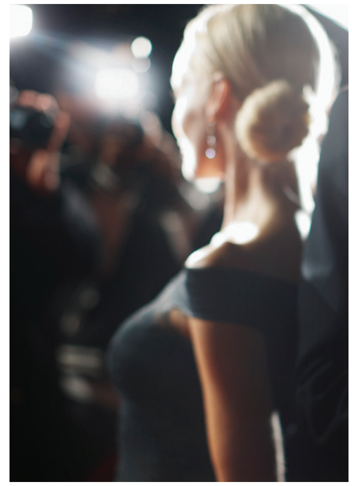
Business ownership

Another line of defense is to consider holding certain assets and separate business endeavors (like a rental property) in separate limited liability companies (LLCs). If structured and administered properly, the LLC should prevent a creditor of LLC 1 going after the assets of LLC 2. However, if the owner of the LLC is *personally* sued, and the judgment creditor wins, any of the client's personal assets, including the owner's interests in LLCs, can be taken away by a "charging order," where the client loses rights to distributions and the creditor steps into client's distribution shoes. In some states like Florida and South Carolina, a successful judgment creditor in certain cases is allowed "foreclose" on LLC interests and force a terminating distribution out to the creditor.

Unfortunately, many lawsuits that are launched against a private business (or LLC) *also* name the business owners "individually" as defendants, which means that a creditor of LLC 1 might still be able to get at the assets of LLC 2 and LLC 3, by suing the client personally and getting a charging order or a foreclosure action against the client's member interests in LLC 2 and LLC 3. One possible solution that may protect an owner's LLC interest from being taken by a creditor might be to contribute their LLC interests to an irrevocable trust like a spendthrift gift trust, a spousal lifetime access trust **(SLAT)** or a domestic asset protection trust **(DAPT)**. Connect with your advisor to discuss more specific details around owning a business that applies to your situation.

Trust strategies

Finally, as mentioned above, there are numerous irrevocable trust strategies that offer asset protection. DAPTs have become increasingly popular over the last two decades, especially for wealthy single persons who cannot deploy protection strategies that require a spouse. As of this paper, 21 states permit people to establish DAPTs in their state. The good news is, you do not have to live in one of those states to take advantage of their DAPT laws.



Conclusion

Athletes and entertainers have special planning needs — driven in part by the timing, source and reliability of their income, as well as their retirement account options, charitable giving goals, asset protection needs, and the potential to have second careers during or after they've left their current profession.

Let us help — your Merrill advisor can offer access to the firm's latest tools and strategies to help you and your team discuss, build and implement your family's customized plan. Reach out to your Merrill advisor today or visit the Sports & Entertainment site for more information.

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