

Guarding the Million Dollar NBA Paycheck

"If I earn a million dollars, how much do I keep?" This is a common question asked by many young athletes. Most working adults—who know the reality of deductions—can provide a fairly accurate answer. For young athletes, though, for whom professional sports is their first job, the answer is not as clear.

As a financial advisor, my "short answer" to the young athlete: "Think of \$1 million as \$400,000 to \$450,000. After taxes and agent fees, you'll keep between 40% to 45% of your salary."

The longer version of the answer begins with, "It depends!" In reality, the sport, the league, the team, and the state in which the athlete resides, all play a factor in how much of their paychecks will be kept.

One of the most dramatic examples is an athlete entering the NBA. In both examples below, daily living expenses such as rent, utilities and groceries have not been factored in.

A Texas-based NBA athlete playing for the San Antonio Spurs, Houston Rockets or Dallas Mavericks will see \$1 million reduced to \$490,000.

37%	- Federal Income Tax
10%	- NBA Escrow
4%	- Maximum Agent Fee ¹
51%	- Total in Taxes and Fees

A player drafted to California to play for the Los Angeles Lakers, Clippers, Sacramento Kings or the Golden State Warriors will see an even more dramatic reduction; \$1 million becomes \$365,700.

37%	- Federal Income Tax
13.3%	- CA State Income Tax
10%	- NBA Escrow
4%	- Maximum Agent Fee ¹
64.3%	- Total in Taxes and Fees

The largest variable in reduction after federal income tax tends to be state income tax (California being the highest). However, a constant deduction for all players is the 10% NBA Escrow.

The escrow represents a program enacted as part of the NBA's Collective Bargaining Agreement (CBA) in 2011. It was established to ensure players do not receive in excess of their contractual financial agreement with the team. It also requires that a percentage of player salaries is withheld and placed into an escrow account. The funds may or may not be returned to players.

Specifically, the NBA withholds 10% of a player's salary from each paycheck and deposits the funds into an escrow account. In addition to salary, NBA players are eligible for a portion of the proceeds from various revenue-generating ventures sanctioned by the NBA, known as Basketball Related Income (BRI) (see sidebar on next page).

¹Based on NBA Collective Bargaining Agreement of 2011- 2021

At the end of each season, the NBA will evaluate the combined income of the players' guaranteed share of BRI, paid salaries and benefits. If a player earned more than they were guaranteed, as part of the CBA, then the amount of the overage is returned to the teams—not the player—from the escrow account. If the amount is less than the guaranteed maximum, the player receives any escrow money that remains up to their maximum allowed.

Escrow money not distributed to teams is used for "League Purposes", which is any purpose the league decides.

The escrow system is the mechanism used to ensure that salaries and benefits do not exceed a player's guaranteed cut of BRI. Based on the 2011 CBA, the agreed upon share of BRI is between 49% and 51%. In the event BRI exceeds or falls short of 49%, adjustments are made as stipulated in the CBA.

Understanding "Basketball Related Income"

The NBA Escrow Account and "repayment" determination centers around a revenue element termed Basketball Related Income or "BRI". BRI essentially includes any income related to basketball operations received by the NBA. BRI also includes revenue from NBA Properties, any other subsidiaries and income from businesses in which the league, a league entity or a team has an ownership stake of at least 50%.

The list for BRI includes:

- > Regular season gate receipts, minus taxes and certain charges including those related to arena financing
- > Broadcast rights
- > All gate receipts/proceeds (including exhibition and playoff)
- > Parking, novelty, program and concession sales (at the arena and in team-identified stores in proximity of an NBA arena)
- > Proceeds from team sponsorships, team promotions and from other premium seat licenses
- > Arena club revenues
- > Proceeds from summer camps, from non-NBA basketball tournaments, from beverage sale rights and from mascot and dance team appearances
- > 40% of proceeds from arena signage and proceeds from luxury suites
- > 50% of proceeds from arena and team practice facility naming rights
- > Proceeds received by NBA Properties, including international television, sponsorships, revenues from NBA Entertainment, the All-Star Game, and other NBA special events

Sources: NBA Collective Bargaining Agreement of 2011; Coon, Larry (2012); "NBA Salary Cap/Collective Bargaining Agreement FAQ"; <http://www.cbafaq.com>; <http://deadspin.com/the-nbas-next-labor-war-is-here-1703832294>; https://en.wikipedia.org/wiki/NBA_collective_bargaining_agreement; <http://www.NBA.com>

Below are the results for seasons ending 2012-2018.

In the three consecutive seasons ending in 2012-2014 and in 2018, salaries and benefits exceeded the designated share. The escrow system lowered salaries back down to the designated share and the players kept what was left over.

	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16	2017-18
BRI	\$3.375 b	\$4.293 b	\$4.522 b	\$4.840 b	\$5.289 b	\$3.574 b	\$7.147 b
Designated share	\$1.727 b	\$2.145 b	\$2.265 b	\$2.439 b	\$2.6885 b	\$1.3085 b	\$3.645 b
Salaries	\$1.610 b	\$2.109 b	\$2.134 b	\$2.175 b	\$2.346 b	\$2.688 b	\$3.349 b
Benefits	\$173.8 m	\$204.9 m	\$207.4 m	\$206.8 m	\$212.0 m	\$2.558 b	\$297 m
Amount held in escrow	\$162.0 m	\$212.2 m	\$214.4 m	\$218.6 m	\$235.8 m	\$369.0 m*	\$338 m
Overage/Underage	\$57.0 m	\$168.7 m	\$76.4 m	(\$57.3 m)	(\$130.5 m)	0*	\$1.5 m
Overage amount retained by NBA	\$57.0 m	\$168.7 m	\$76.4 m	\$0	\$0	0*	\$1.5 m
Remainder of escrow given to players	\$105.0 m	\$43.5 m	\$138.0 m	\$218.6 m	\$235.8 m	0*	\$336.5 m
Supplemental payment to players (due to underage)	N/A	N/A	N/A	\$57.3 m	\$130.5 m		

*Estimates: The CBA was renegotiated in 2016 and information is not currently available.
Source: www.cbafaq.com

In the 2014 and 2015 seasons, player salaries and benefits were less than the designated share, so the players were able to keep all of the escrow dollars in addition to receiving a supplemental payment to meet their guaranteed share.

The NBA Escrow Account program is a negotiated measure to ensure that players share in the profits of all NBA revenue streams without exceeding the bargained ceiling. Also, important to note, under the 2011 CBA, the owners did not pay more than 51% of revenue to players (2005 CBA BRI revenue share was 57.5%), guaranteeing the owners' share remains proportionate to revenue.



About the Author

Sterling Sullivan, CFP® is Vice President and Senior Wealth Advisor at Calamos Wealth Management, specializing in professional athletes, coaches, corporate executives and other high net worth individuals and families. As part of his practice, he focuses on educating his clients and their families on the how to turn career earnings into a lifetime of financial security.

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