

The Hockey Wealth Group Offers Insight on NHL Deferred Compensation Contracts

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MOUNT PLEASANT, SC - March 31, 2025 -
Frank Vatrano?s recently signed $18 million contract extension with the Anaheim Ducks has drawn attention across the NHL for its substantial use of deferred compensation. The structure of the agreement includes $9 million paid over the first three years, while the remaining $9 million is scheduled to be disbursed over a ten-year period beginning in 2035.

Under the contract terms, Vatrano will receive $3 million per year over the upcoming three NHL seasons. However, he will not begin to receive the second half of the contract payments until 2035, when he is set to receive $900,000 annually for ten years. This extended deferral period is notable as it is the most prolonged currently seen in the league. While the contracts of players like Seth Jarvis, Jaccob Slavin, and Jake McCabe have also featured deferred compensation, Vatrano?s arrangement stands out for its duration and financial implications.

The primary benefit to the Anaheim Ducks lies in how deferred compensation affects the contract's present value and salary cap hit. With a discount rate of approximately 5.41% applied, the present value of the $18 million contract is calculated at approximately $13.71 million, resulting in a salary cap hit of $4.57 million

annually. This structure allows the team to preserve cap space while still meeting long-term compensation obligations.

Deferred compensation structures have become increasingly relevant in the NHL due to rising interest rates, which from the team?s perspective, reduce the present value of contracts for salary cap purposes. The NHL?s current methodology for calculating present value uses the Secured Overnight Financing Rate (SOFR), following the discontinuation of LIBOR in 2023.

The length of deferral also plays a critical role in determining present value. Longer deferrals provide deeper discounts, reducing immediate cap implications but increasing financial uncertainty for players due to potential inflation and changes in tax codes. Unlike recent contracts that paid out deferred compensation shortly after the contract term, Vatrano?s payments will continue for a decade after his final season under the agreement.

The contract structure may present potential tax planning opportunities. A rough calculation shows that Vatrano is expected to save approximately $1 million in California state income taxes by deferring $3 million of salary in each of the next three years. Should he choose to retire in a state without income tax, such as Florida, he may benefit from additional long-term tax savings. However, future legislation and federal tax rate changes could affect the overall effectiveness of this strategy.

Deferred compensation exposes players to inflation risk, as the value of future payments could diminish in real terms. The $9 million Vatrano is set to receive between 2035 and 2044 is valued at only $4.71 million in today?s dollars. Inflation forecasting remains a challenge, and high inflation over the next decade could significantly impact purchasing power.

From an investment perspective, deferred compensation functions similarly to a fixed-income asset. Vatrano effectively forgoes immediate income in exchange for a long-term payout schedule yielding an implied 5.41% annual return. While some analysts suggest higher returns might be available through equity investments, those returns are not guaranteed. Therefore, while accepting deferred compensation is likely suboptimal in 99% of market simulations, it may be a conservative alternative for a player who would prefer to mitigate market risk.

As the current NHL Collective Bargaining Agreement is set to expire after the 2025?2026 season, league officials are expected to review deferred compensation practices during upcoming negotiations. While the NHL has permitted such arrangements under current rules, there is speculation that this approach could be limited or eliminated in future agreements.

In the current interest rate and tax environment, deferred compensation may remain an attractive option for

NHL teams and select players. However, agents and players must carefully weigh the financial tradeoffs and adjust wealth management strategies accordingly. The long-term success of such contracts depends on personalized financial planning, prudent investment, and a comprehensive understanding of tax implications.

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Hockey Wealth Group

Founded in 2014, our group was built by former professional hockey players to help fellow hockey players and their families.

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