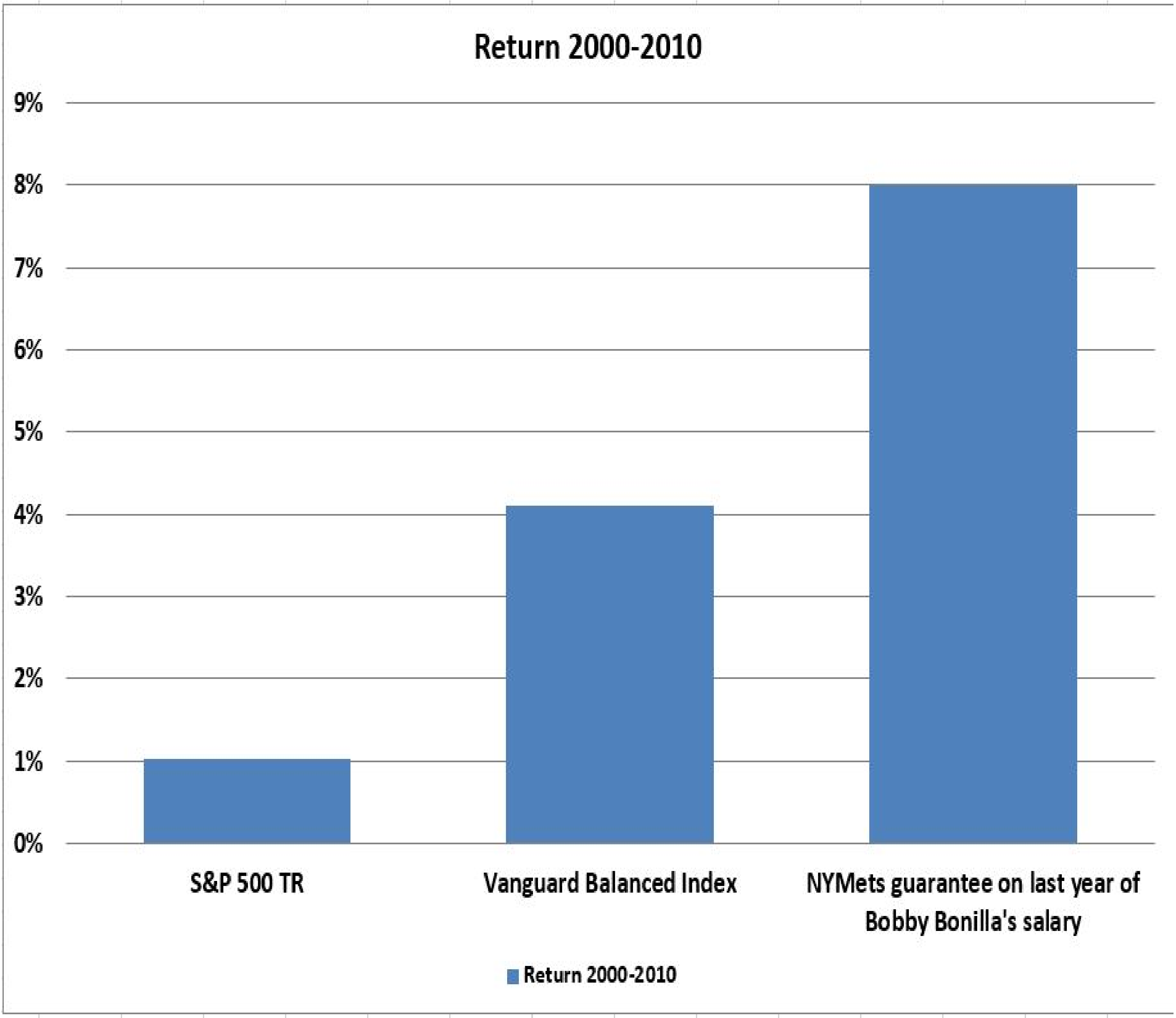
(A previous version of this article appeared on [MarketWatch] on July 29, 2017.) **On July 1, the New York Mets sent a check to a former player, Bobby Bonilla, for $1.19 million.** In fact, this past check was the eighth annual one the Mets have sent Bonilla, and they will send him 17 more, according to a deal they struck with their former player at the end of his career. But Bonilla, a 55-year old retiree and former 3rd baseman/outfielder, hasn?t played a game of major league baseball since 2001. Why do the Mets still pay him? The reasons are instructive for anyone saving for retirement. In 2000, the Mets released an aging and decreasingly productive Bonilla, while still owing him $5,9 million in salary. Bonilla and his savvy agent at the time, Dennis Gilbert, negotiated a deal whereby the Mets kept that $5.9 million for the next 10 years and then paid it out to Bonilla annually for the 25 years after that. In exchange, the Mets reportedly had to compound the amount of money they owed Bonilla by 8% annually for the next 35 years in total. When we do the math, the 8% return checks out. If you compound $5.9 million for a decade at 8% annualized, you end up with $12.7 million. That comprises the ?deferred period? of Bonilla?s deal when the Mets are investing Bonilla's capital however they want, and hopefully generating a better-than-8% return without paying him anything. Then, after that deferred period, the math shows if the Mets continue

to compound the $12.7 million at 8%, but also pay out $1.19 million of it to Bonilla every year, they pay out Bonilla completely after the 25th payment. That?s the ?payout period? of Bonilla?s deal when the Mets continue to retain some of the capital, but also pay some of it out every year until Bonilla has all of it.

Lessons for Investors

Getting an annual payment for nearly $1.2 million is beyond possibility for most retirees, but there?s a lot people can learn from Bonilla?s deal. First, we are all Bobby Bonilla in that everyone who saves is deferring part of their paycheck to build a pile of assets they can live on in retirement. It's true our former employer doesn't necessarily hold our assets and guarantee a return on them. But if you?re saving for retirement in a 401(k) or some other vehicle , you?re doing the same thing Bonilla did with that $5.9 million the Mets owed him in the last year of his contract ? you?re just doing it with less money over more pay periods. So keep saving and deferring money. You may not ever get to save and defer $5.9 million in one lump sum, but do what you can. Second, don?t turn your nose up at 8%, but consider the source of the return and if there's a guarantee. One of the things that encouraged the Mets to do this deal with Bonilla is that the Mets? owners had some of their money "managed" by Bernie Madoff. They thought Madoff was producing 10%-12% annual returns, without down years, so it probably seemed like a no-brainer to guarantee Bonilla 8%. Of course, we now know Madoff was a fraud. The lesson here is don?t believe an investment strategy can deliver 10%-12% on an annualized basis without declines. It?s true that the stock market has delivered around 10% annualized for the last century ? though not at all for every 10- or 20-year period ? but it has delivered that average annual return with a lot of volatility, including many gut-wrenching down years. It wasn't Madoff's returns that were so spectacular; it was their consistency. His Sharpe and Sortino Ratios (measures of volatility-adjusted return) were the clues to the fraud more than the annualized returns themselves. On the other hand, if a healthy business or an insurance company contractually guarantees you an 8% return, chances are that?s a great deal. While the Mets should have been suspicious of Madoff, Bonilla was correct to take an 8% return on his capital from the Mets. Yes, he gave up some liquidity, but the Mets are obligated to pay Bonilla by a contract or in a way a stock investment or other investment strategy isn't. That doesn't mean an enterprise like the New York Mets can't fail, but a guaranteed payment from a healthy enterprise is safer than counting on an 8% annualized stock market return or than counting on a high single digit payment from, say, a triple-C rated bond. Additionally, although a Mets bankruptcy could be a blow to Bonilla, depending on where his payments rank relative to other team obligations, it's likely that he has saved some of his other career earnings. The $5.9 million deferred payment that turned into this annual windfall for him in retirement only represents one year's worth of income, and Bonilla had a 15-year career. Unless he squandered all of his other earnings, a Mets failure likely wouldn't sink Bonilla in retirement.• In other words, all of Bonilla's fortunes probably aren't tied to the Mets' financial success. He's probably diversified his assets, and so should you. Another lesson is to consider stock market valuation. When Bonilla made his deal in 2000, the stock market was roaring as the prices of technology stocks reached the stratosphere. But it was also very expensive so that it couldn't keep up those returns. Bonilla and his agent seemed to know what others discovered, or rediscovered only after the technology meltdown ? that 20% or greater annualized returns are unrealistic and that an 8% guaranteed annualized return from a solvent institution is great. I?ve never read interviews with Bonilla and Gilbert discussing this, but, judging from the deal they made, they didn?t think the world had entered a ?new paradigm,? where 8% was a paltry return. You should be skeptical of new paradigms too. Incidentally, if Bonilla had invested his money in the S&P 500 Index or in the Vanguard Balanced Index Fund, he would have underperformed what the Mets paid on his capital for the deferred period (2001-2010) by a 7 and 4 percentage points, respectively. I don?t know if Bonilla and Gilbert were looking at standard stock market valuation metrics, but when the Shiller PE hit 44 in 1999, it was a decent bet that stocks would do poorly for the next decade. So considering valuation can be useful for forecasting future returns, especially if valuations are at an extreme.



Last, inflation could hurt Bonilla. Anytime you make a deal for a fixed rate of return you are subjecting yourself to inflation risk. Fortunately, inflation is running at a low rate these days *(in the 2% range),* making Bonilla's 8% an inflation-smashing return. It might not always be that way until 2035 though, so Bonilla might want to buy some real estate and gain some exposure to emerging markets stocks and commodities with some of that July 1 check every year. No publicly traded assets are screamingly cheap right now though, so building up another healthy pile of cash wouldn't hurt him either.