1 in 6 NFL players go bankrupt

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By MoneyTips

How do you go from being on top of the world with a multimillion-dollar contract to filing for bankruptcy? By spending like it is never going to end. Former professional football players are finding that out the hard way.

Studies have shown that a high percentage of NFL players declare bankruptcy after their playing days, and many others suffer financial difficulties. A Sports Illustrated (SI) article from 2009 indicated that after two years of retirement, a whopping 78 percent of former NFL players went bankrupt or suffered financial stress due to joblessness or divorce -- although in fairness, that analysis falls into the heart of the Great Recession.

A recently released study by the National Bureau of Economic Research (NBER) focused on the bankruptcy aspect. The NBER working paper studied NFL players who had been drafted between 1996 and 2003. The authors found that bankruptcy filings began relatively soon after retirement and continued all the way through the first dozen post-retirement years.

Taken in total, almost 16 percent of the players studied declared bankruptcy during the first twelve years of retirement. The bankruptcies did not correlate with the amount of money made over a career or the length of time in the league.

Keep in mind that there are plenty of undrafted players who spend some time in the NFL (just over 31 percent in 2013 according to the Elias Sports Bureau) and most make nowhere near the money that drafted players do. Adding those players could skew the statistics either way -- the undrafted players made less money to save, yet the undrafted player may have a greater sense of how short the NFL experience can be and may be more likely to engage in financial planning.

Financial planning, or more precisely the lack of it, is the main point. While the NFL Players Association (NFLPA) started a financial wellness program around the time of the SI article, too many players either do not take the advice or do not fully understand it. It is hard for an NFL athlete to fully grasp the fact that his career is short-lived and that he must plan for the future.

The NBER paper points out that NFL players do not follow the "life-cycle model" of savings. In this model, people try to balance their consumption over their lifetime and save for the future, instead of simply consuming more in proportion with their current income. One could argue that most Americans do not follow that model either -- but most Americans do not get annual contracts averaging millions of dollars, especially knowing in advance that the income is short-term.

The author of the 2009 SI article, Pablo Torre, created four general categories that often lead NFL players astray.

- The Lure of The Tangible - Owning a restaurant, bar, or car dealership is a tangible, sexy idea. Investing a portion of your wealth in a diversified portfolio containing lower risk assets is not.
- Misplaced Trust - Bad financial advice is a common thread. Too often there is a trusted advisor who did not deserve that trust, whether through incompetence or fraud. Players that lack the financial understanding to understand risk or spot fraud can easily fall for "can't miss" investments.
- Family Matters - Divorce is common among athletes; pre-nuptial agreements are not. Divorces with NFL athletes tend to occur after retirement, when the athlete has far less income (if any) than during his playing days. In essence, he loses a disproportionate amount of his likely lifetime wealth.

  The other aspect of family matters involves prolific procreators such as former running back Travis Henry. Paying child support for one child can be a financial burden. Multiply that by eleven children with ten different women, and you end up in jail for failure to pay child support (as Henry did).

- Great Expectations - Your peers are living large, and you have a new set of "friends" that sap your resources. What is an NFL athlete to do? Young NFL players often follow the pack with spending and don't think about being taken advantage of by hangers-on.

If the NFLPA's efforts succeed in raising financial awareness among NFL players, perhaps a follow-up study in a few years would show dramatic improvement. While no one can blame these working players for having fun both on the field and off, this research shows that a hard-hitting tackle of spending trends will prevent them from being blindsided in retirement.

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