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Life after the NFL

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It’s football season once again. For most people, that means entertainment, social events, and the thrill of rooting for their favorite team. But for a select few athletes talented enough to play in the National Football League (NFL), it means an opportunity to earn more money in a few short years than a college graduate can earn in a lifetime. According to "Bankruptcy rates among NFL players with short-lived income spikes" (National Bureau of Economic Research working paper no. 21085, April 2015) by Kyle Carson, Joshua Kim, Annamaria Lusardi, and Colin F. Camerer, median length of a pro football career is 6 years and median earnings are $3.2 million (in year 2000 dollars).

So what happens when 20-something athletes come into a financial windfall? How well do they follow the “life-cycle hypothesis,” which suggests that rational individuals will smooth consumption by saving while the income stream flows so they can provide for leaner times when it doesn’t? That is the focus of this Carson, Kim, Lusardi, and Camerer working paper. Because measuring consumption is challenging, the authors instead use court records to compare and contrast bankruptcy rates of NFL players with those of the public at large.

Salary data were calculated among NFL players whose careers began and ended between 2000 and 2013, a total of 892 athletes. The annual bankruptcy hazard rate was defined as that time from when a player’s NFL career begins until his first bankruptcy filing. Not surprisingly, the authors found the bankruptcy hazard to be near zero for active players. After players retire from the NFL, however, the bankruptcy hazard rate begins a steady climb, from 1.9 percent at year 2 to 15.7 percent at year 12. Interestingly, players with longer careers and higher incomes were found to have fared no better than their peers with shorter careers and lower earnings in terms of bankruptcy hazard; the bankruptcy hazard decreased by just miniscule amounts for each additional year played in the NFL. In fact, rates were remarkably flat across all career lengths. The exception was an unexplained pronounced spike in bankruptcy for players who played exactly 5 years, 1 year beyond the typical 4-year contract.

Using regression analysis to extrapolate, the authors pessimistically predict a bankruptcy rate of between 15 and 40 percent 25 years after retirement. Comparing NFL players in the sample with men in the National Longitudinal Survey of Youth 1997 in the same age cohort reveals a much higher bankruptcy hazard among the NFL group.

NFL players typically earn an enormous income at a young age, but that income, depending on players’ health and ability, can end quickly and randomly. Unfortunately, perhaps because of what the authors describe as possible “optimism over career length, poor financial decisions, or social pressures to spend” or because so many of the players lack marketable skills, traditional life-cycle savings models don’t seem to apply here. Much work remains to correlate the hazard of bankruptcy with the precise behavioral biases and social variables that too often lead NFL players from near-hero status and enormous wealth to poor financial decisionmaking and poverty.