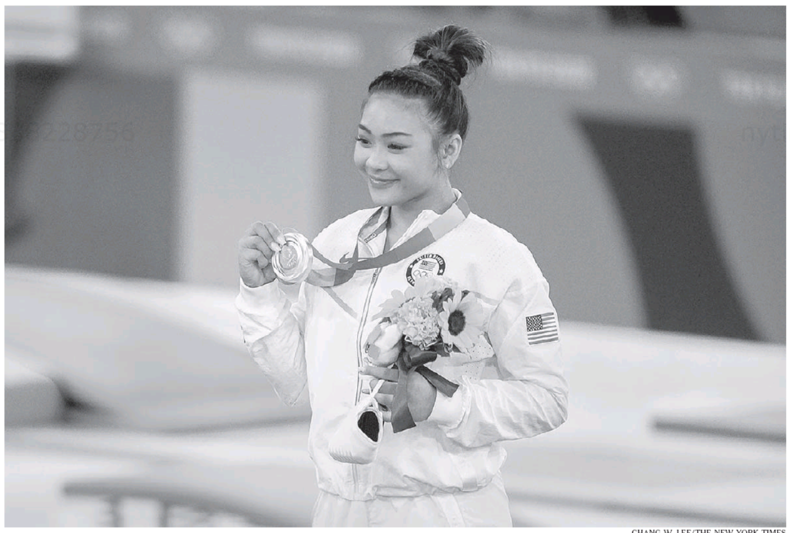
Personal Finance

Cashing In Comes With Its Own Pitfalls

Less life experience and financial expertise puts student-athletes at risk of being taken advantage of.

Wealth Matters

By PAUL SULLIVAN



CHANG W. LEE/THE NEW YORK TIMES

Sunisa Lee won gymnastics gold in the women's individual all-around final at the Tokyo Olympics. She plans to attend Auburn University.

Sunisa Lee took home three Olympic medals — gold, silver and bronze — and, in the process, went from being little known outside the gymnastics world to a breakout star.

When she arrives at Auburn University in a few weeks, she'll be among the first Olympians in college to be able to profit off her name and likeness since the National Collegiate Athletic Association decided in June to allow college athletes to earn money while maintaining their amateur status.

For someone of her caliber, the payout could be substantial. Lesser-known Olympians are also likely to benefit financially, as well as hundreds of collegiate athletes in football and basketball, the two big revenue-generating sports.

But the N.C.A.A. ruling means student-athletes will have a new issue to consider. In addition to playing their sport, getting an education and representing their university, many are going to want to carve out time to present their best selves — and profit from it.

Navigating a new world of enticing financial prospects is never easy for anyone. But financial advisers and agents for athletes said they were concerned that endorsement companies would take advantage of student-athletes, who have limited life experience and financial expertise.

"Michael Phelps has always benefited from name, image and likeness," said Steve Trax, the head of the sports and entertainment group at the financial adviser MAI Capital, referring to the swimmer who won 28 Olympic medals. "What's changed is social media. It's broadened the opportunity for not just your premium athletes but also Olympic athletes and athletes in more niche sports."

Members of an elite college program, like the University of Florida's softball team, may not have national name recognition or professional prospects, he said, but they still have earning potential.

"In a college town like Gainesville, some of those premier athletes in a sport like that will have some unique opportunities with a pizzeria or a sporting goods store," Mr. Trax said, though those players will be looking at deals worth tens of thousands of dollars, not hundreds of thousands of dollars or more.

"That's where the N.C.A.A. ruling can be really helpful and advantageous, at spreading the wealth among other college athletes," he added. "What I hope is not the case is that the almighty dollar drives the day."

The conversation needs to begin with these student-athletes and their parents understanding their obligations under an endorsement contract.

"These are uncharted waters, and these athletes need to have someone to educate them on what they're agreeing to," said Michael Liersch, head of advice and planning for Wells Fargo's wealth and investment management division. "It's more concrete if it's a traditional merchandise deal. But if it's agreeing to allow your name and likeness in sponsored social media or videos on YouTube and Twitter, it gets more complicated."

Mr. Liersch said he also worried that the headline-grabbing contracts that a few athletes were likely to strike could influence younger players in a bad way.

"There's going to be one person who locks in some amazing deal, and that's going to set the narrative," he said. "Kids are going to want to be that emerging athlete. That might not be the right focal point, given the alternative of focusing on education or a career that has more longevity."

Mr. Trax said he was helping a family friend who plays basketball in the Big East Conference negotiate several endorsement contracts.

"I've reviewed three contracts and made aggressive changes to each one, around basic contractual language but also the payment terms and the athlete's obligations," he said. "It's an exciting, attractive area, but the potential client base is ripe for being taken advantage of."

Joe McLean, managing partner of Intersect Capital, which manages money for several professional basketball players and golfers, said he worried that players were going to be distracted by the lure of profiting from their image.

Mr. McLean, who played basketball at the University of Arizona, said that when he was young and dreaming of greatness in the National Basketball Association, he had a poster of Larry Bird on his wall.

"I didn't have a picture of an N.B.A. check," he said. "Now, the dollar signs are part of that dream. Having two dreams typically doesn't work out. You need to have one dream, and everything else will be fulfilled from that."

At the same time, Mr. McLean is working with his alma mater to develop a program, Arizona Edge, to help student-athletes understand their personal brand and how to maintain it.

"It's about how to negotiate deals, how to have a growth mind-set, how to define your intellectual property," he said. "A lot of people are going to monetize the athlete and not the other way around. This is meant to help the athlete."

The financial advisers also said they were concerned that universities would simply strike blanket marketing agreements on behalf of their athletes. While the students would get a share of the revenue, most of the money would go to the universities.

Others asked whether universities might need to step in to ensure that just a few athletes didn't take all the endorsement dollars.

"The majority of athletes who aren't playing football or men's basketball aren't going to see their lives changed," said E.J. Kahn, an adviser with Wells Fargo Advisors. "The solution is something like Title IX, a mandated solution to help even the playing field between men and women. Without the N.C.A.A. inserting itself into this, there will be drastic inequality."

The advisers pointed to three types of athletes who might gain the most from the new rules: football and basketball stars who would previously have been enticed to leave college early; female athletes who might turn professional; and standout athletes in lesser-known sports with little or no professional prospects.

Ronnie Brown, a financial adviser in Atlanta who played football for Auburn and was drafted in 2005 by the Miami Dolphins, saw benefits from the N.C.A.A. program for both college players like him and ones who would not play professionally.

"Once you go to college, you're one step away from being a young adult, where you're expected to earn your own way," Mr. Brown said. "This forces you to be a lot more responsible."

The earning power of some female athletes in college may actually be higher as amateurs.

"Women athletes, when they turn professional, earn a lot less than men, but in college they have huge followings," said Sharon Klein, president of family wealth at Wilmington Trust. "It could really help women."

Then there are the sports that have niche followings. Their athletes can profit from local opportunities, or they can attract sponsors from companies that cater to enthusiasts of the sports, like archery or fencing.

Several advisers recommended that college athletes have a broader plan than agreeing to one-off deals.

"They need to ask, 'How is this going to fit into my overall plan?'" Ms. Klein said. "That positions these athletes in a much better way for success. It's all about that financial literacy."

And that's something all student-athletes can benefit from, regardless of what they do after college.

Tuition Insurance Gains Attention, but Read the Fine Print

Some refund policies, which have been around for decades, don't cover student withdrawals resulting from an epidemic.

Your Money Adviser

By ANN CARRNS

TILL LAUER

With the new college year about to begin amid a resurgent pandemic, college tuition insurance is getting new attention.

Tuition insurance is just what it sounds like: Students or their families buy a policy that will reimburse them for all or part of their tuition and other costs of attending college if the student must withdraw from school for a documented medical or mental health reason.

The average published cost of tuition, fees, and room and board at private, four-year colleges was about $51,000 last year, according to the College Board. Not all students pay full price, because of college discounts and scholarships. Even so, missing a semester and having to make it up can be costly for students and their families.

But while the coverage sounds appealing, it's important to know the details of how a policy works and what situations are covered, insurance experts say.

"Certainly anyone thinking about getting it must read the policy first to see if the thing you're concerned about is really covered and what exclusions and conditions apply," said Robert Hunter, an insurance expert with the Consumer Federation of America.

Kristina Dooley, a college consultant in Hudson, Ohio, and president of the Independent Educational Consultants Association, said that she didn't typically advise families to buy tuition insurance, but that the pandemic seemed to have spurred interest in it.

"I've had more families ask about it in the past year and a half than ever before," she said.

Colleges and universities typically offer full tuition refunds for just a short period after the start of classes, and then offer partial refunds for four or five weeks; many may offer little or nothing if a student must withdraw later in the semester. Some schools offer tuition insurance as a way to cover that gap.

Despite formal cutoff dates for refunds, institutions would probably work with a student in a medical or mental health crisis to arrange a partial or full refund, or offer a deferral so the student can withdraw but return to classes the next semester, said Justin Draeger, president and chief executive of National Association of Student Financial Aid Administrators.

Tuition insurance policies, sometimes called tuition refund insurance, have been around for decades.

Policies offered by GradGuard, which markets them in partnership with about 400 colleges, specifically exclude student withdrawals resulting from an epidemic. But the company's insurance partner, Allianz, has chosen to cover medical withdrawals resulting from the coronavirus, said John Fees, a co-founder and the managing director of GradGuard.

An update attached to policy information on GradGuard's website, dated Feb. 12, says that "until further notice, although not covered under most plans, we are currently accommodating claims for when an insured student completely withdraws from school for the covered term due to becoming ill with Covid-19."

GradGuard policies will continue to cover withdrawals by students who fall sick with Covid in the coming academic year, Mr. Fees said. He declined to say how many such claims the company's policies have paid. And he noted that the policies did not cover withdrawals simply because a school switched from in-person classes to remote learning. (Some families sued colleges and universities that had switched, claiming that remote learning was either substandard or not what they were promised. The lawsuits have had mixed results.)

The insurance would probably cover a student who withdrew because of a mental health diagnosis related to the coronavirus, Mr. Fees said. The policies require that a licensed mental health professional examine the student and counsel withdrawal. (In the past, withdrawals for mental health reasons required a documented hospital stay, but that is no longer the case, Mr. Fees said.)

Eden Schiano, a 19-year-old from Virginia Beach, said her family was relieved that it had bought tuition insurance through GradGuard when she enrolled at Virginia Commonwealth University last fall. Ms. Schiano had been treated for an eating disorder, she said, and her family was concerned about the demands of college and the potential loss of funds if she ended up withdrawing.

Ms. Schiano was determined to go, however, so her doctor recommended tuition insurance. The family paid $180 for $10,000 in coverage, according to GradGuard. (Typically, the cost of coverage is 1.06 percent or 1.8 percent per $10,000, depending on the college.)

Once on campus, Ms. Schiano struggled to juggle remote classes and eat regular meals, and began losing weight, she said. Her doctor advised that she withdraw, which she did in October. The policy payout allowed her to regroup, she said, and she is now preparing to enroll in community college this fall.

Despite the uncertainty around Covid and increased concern about mental health, some colleges say there hasn't been a rush among families to buy tuition insurance. Reed College in Portland, Ore., which offers coverage through GradGuard's main competitor, A.W.G. Dewar, said the number of families that bought coverage fluctuated between 5 and 10 percent each year.

"The college has not experienced any significant changes in participation or claim activity as a result of the pandemic," Mandy Heaton, a Reed spokeswoman, said in an email.

Dewar, which has provided tuition insurance since 1930, offers policies at dozens of institutions of higher education, including marquee names like Columbia and Stanford Universities, as well as private elementary and high schools. Buying the insurance is optional, but some schools automatically enroll students unless they opt out.

The details vary by campus, but typically the Dewar policies reimburse 70 to 80 percent of the cost of tuition, fees, and room and board, according to online policy offerings. Some schools allow students to customize their coverage, for tuition only or to add room and board. Rice University, for instance, offers coverage for both the coming fall and spring terms for $745, or $582 for tuition only, according to its offering through Dewar. Or families can buy a specific amount of coverage, depending on their need.

Stanford has offered tuition insurance for 30 years, said Ernest Miranda, a university spokesman, but "only a very small percentage of students apply for it," including during the pandemic. In part, he said, that's because about a third of undergraduates pay no tuition out of pocket, thanks to need-based aid and scholarships, and many more have a portion of tuition covered.

Ragan D. Lower, president of Dewar, said in an email that there had been an "uptick" in plan participation in the last year, but that the company did not disclose data about claims.

Dewar's tuition refund plan does not exclude student withdrawals due to epidemics or pandemics, so withdrawals because of Covid-19 illness "would generally be covered," he said.

The pandemic has caused insurers to modify some offerings. In 2019, GradGuard offered a policy, known as Advantage, that covered withdrawal for just about any reason, including a change of heart by the student. The offering has been discontinued because it was too difficult to price policies in the pandemic, Mr. Fees said.

Another company that offered tuition insurance, Liberty Mutual, has stopped selling it. A company representative didn't respond to a request for information, but its website says tuition coverage "is currently not available."

Q. and A. About Tuition Insurance

When do I have to buy the insurance?

Typically, policies must be purchased before the first day of classes.

What about pre-existing conditions?

GradGuard's sample policy says it covers withdrawals for pre-existing conditions, provided that on the policy purchase date, the student didn't have any symptoms of the condition and was "medically able" to attend school for the term.

Dewar's online information doesn't address pre-existing conditions.

How can I find my college's refund policy?

Most schools outline their refund policies on their financial services or school treasurer websites. Colleges offering coverage through Dewar typically include their refund schedule on the insurance website. If you can't find it online, John Fees of GradGuard recommends calling the school to ask.

How should I decide whether to buy tuition coverage?

Families often seem less concerned about a child's contracting Covid, said Kristina Dooley, an adviser from Ohio, than about the child's having mental health issues on campus. While coverage can be affordable compared with the overall cost of college, "it's still an expense," she said.

Before signing up, Ms. Dooley advises, concerned families should check with their college to see what its refund policy is. Then, if the worry is Covid, consider how the school has handled the pandemic so far. What was its infection rate? Is it requiring students to be vaccinated?

Finally, ask how the school is set up for remote learning. Last year, she noted, many colleges invested in technology to deliver classes online. So it may be possible that a student can return home and continue taking classes remotely in a supportive environment, without having to withdraw.

Colleges, Ms. Dooley said, want to retain students. "The last thing they want is to have a student leave," she said. "It doesn't hurt to ask."

If you're still unsure, you could get coverage for a single semester, to see how things go.