

# LOSS OF VALUE COVERAGE

White Paper

Prepared May 2015

By BWD Sports & Entertainment

## INTRODUCTION

Do student-athletes have disability insurance options to protect their potential future earnings as a professional athlete? What if the player suffers an injury/illness that is not career-ending but significantly decreases the player's value? What is the eligibility for coverage?

This report is designed to explain what disability coverage options may be available for student-athletes and how they work. This report will also touch on the current state of the disability insurance marketplace as well as highlight important items that student-athletes should be aware of if they decide to pursue disability insurance.

*This report is intended for informational purposes only and should not be used as a solicitation or an offer to buy insurance.*

## OVERVIEW

1. *Introduction*
2. *Permanent Total Disability Coverage*
3. *Exceptional Student-Athlete Disability Program*
4. *Loss of Value Coverage*
5. *Loss of Value Case Studies*
6. *Loss of Value Important Coverage Terms and Conditions*
7. *Loss of Value Marketplace*
8. *Best Practices*

## WHAT IS PERMANENT TOTAL DISABILITY (PTD) COVERAGE?

Permanent Total Disability coverage for a student-athlete protects the Player against suffering an injury or illness during the designated coverage period which prevents the Player from ever engaging in his intended occupation as a professional athlete (i.e. must be a career ending injury).

PTD Coverage is 24-hour accident and sickness coverage including the playing and practicing of the Player's sport. The benefit amount (payable in a lump sum) and pricing is determined by insurance underwriters based on Player's sport, projected draft position and injury history. The medical underwriting process includes an application and physical exam and exclusions for specific pre-existing injuries or illnesses may apply. The waiting period is twelve consecutive months from the date permanent total disability is determined before benefits are payable.

## DOES THE NCAA OFFER ANY DISABILITY COVERAGE OPTION TO STUDENT ATHLETES?

Yes, coverage through the Exceptional Student-Athlete Disability Program is available to qualifying student-athletes. Student-Athletes in men's football, basketball, baseball and ice hockey, along with women's basketball players can apply for the coverage. If the student-athlete is approved by the program administrator, they will be able to purchase Permanent Total Disability coverage with pre-approved financing, if necessary.

## ELIGIBILITY

Student-athletes with remaining athletics eligibility at NCAA institutions who are projected to be selected in the designated rounds of the following professional sports drafts: Football and Men's Ice Hockey in the first three rounds; Men's Basketball, Baseball and Women's Basketball in the first round.

## BENEFITS

Benefit amount is determined by the program administrator based on the Player's sport and projected draft position up to the following maximums:

Football	\$5,000,000
Men's Basketball	\$5,000,000
Baseball	\$1,500,000
Men's Ice Hockey	\$1,200,000
Women's Basketball	\$ 250,000

## WHAT IS LOSS OF VALUE (LOV) COVERAGE?

Loss of Value coverage for student-athletes protects the Player's future contract value from decreasing below a predetermined threshold amount solely and directly as a result of a significant injury or illness suffered during the designated coverage period. Loss of Value coverage must be purchased in conjunction with Permanent Total Disability coverage and is typically purchased for the year prior to the Player becoming draft-eligible.

Similar to PTD coverage, LOV is 24 hour coverage and medical underwriting is required. Exclusions for specific pre-existing injuries or illnesses may apply.

## HOW DOES LOSS OF VALUE COVERAGE WORK?

### STEP 1 – Determine Eligibility

The insurance underwriters will determine eligibility for LOV coverage based on the Player's projected draft position (e.g. 1st Round Pick). If the Player is projected to be selected early enough in the draft to be eligible, the insurance underwriters may offer a LOV coverage limit typically between \$1,000,000 and \$10,000,000 based on the Player's projected draft position.

### STEP 2 – Set Threshold

The insurance underwriters will set a Loss of Value Threshold, which is typically 50-60% of the Player's projected Rookie Contract. Some insurance underwriters will break down the Threshold into an average per year amount in order to determine the Loss of Value benefit when the maximum contract offered is a different length than the projected Rookie Contract. (This could result in different claim payment amounts depending on carrier/underwriter).

## EXAMPLE

*The Player's Projected Rookie Contract is 4 Years, \$10,000,000 Total*

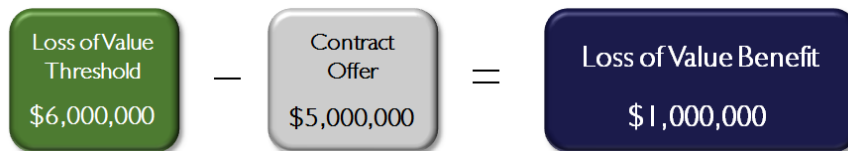
- *Projected Rookie Contract x 60% = Loss of Value Threshold*
- *\$10,000,000 x 60% = \$6,000,000 Loss of Value Threshold*
- *\$6,000,000 / 4 Years = \$1,500,000 Annual Loss of Value Threshold*

### STEP 3 – Determine Benefit

If the maximum contract offer the Player receives is less than the Threshold amount solely and directly as a result of a significant injury or illness, the Player could be eligible for a Loss of Value benefit based on the difference up to the coverage limit.

#### EXAMPLE

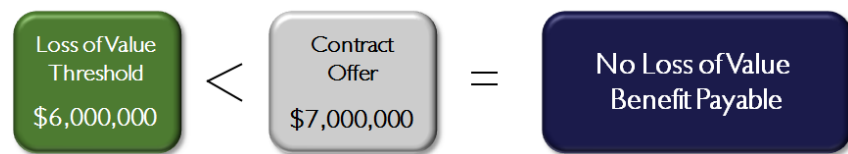
- Player’s projected Rookie Contract is 4 Years, \$10,000,000 Total
- Player’s Loss of Value Threshold is 4 Years, \$6,000,000 Total
- Player is offered a Rookie Contract of 4 Years, \$5,000,000



However, if the maximum contract offer amount exceeds the Threshold amount, the Player is not eligible for a Loss of Value benefit.

#### EXAMPLE

- Player’s projected Rookie Contract is 4 Years, \$10,000,000 Total
- Player’s Loss of Value Threshold is 4 Years, \$6,000,000 Total
- Player is offered a Rookie Contract of 4 Years, \$7,000,000 Total



### LOSS OF VALUE CASE STUDIES

The following case studies provide a more in depth look of how different scenarios will affect a potential Loss of Value claim. All of the football player examples and the first basketball player example assume that all contracts are 4 years. The basketball examples to follow will expand on what was mentioned earlier in the report about how some underwriters will use an annual Threshold amount when the Actual Contract offer is a different length than the projected Rookie Contract and how different payment methods will affect the benefit received.

## FOOTBALL PLAYER CASE STUDIES – PLAYER A

- Player A is projected to be the 1<sup>st</sup> pick in the NFL Draft
- Based on the 2014 NFL Rookie Scale, the 1<sup>st</sup> pick would make \$22,272,998 over his 4-year Rookie Contract
- Loss of Value Threshold is set at 60% of the \$22,272,998 or \$13,363,798
- Insurance Underwriter offers Player A a Loss of Value Coverage Limit of \$10,000,000
- Due to a significant injury Player A falls in the NFL Draft

In order for Player A to have a potential Loss of Value claim, Player A will need to fall to the 8<sup>th</sup> pick or lower before his contract amount will be less than his Threshold amount of \$13,363,798.

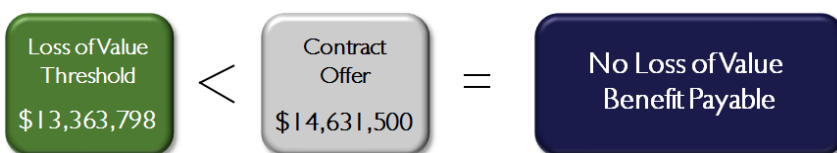
### 2014 NFL ROOKIE SCALE

PICK	2014	2015	2016	2017	TOTAL	
1	\$4,049,636	\$5,062,045	\$6,074,454	\$7,086,863	\$22,272,998	- Projected Contract
2	\$3,869,836	\$4,837,295	\$5,804,754	\$6,772,213	\$21,284,098	} No Loss of Value Benefit Payable
3	\$3,755,418	\$4,694,272	\$5,633,126	\$6,571,980	\$20,654,796	
4	\$3,624,655	\$4,530,818	\$5,436,981	\$6,343,144	\$19,935,598	
5	\$3,395,818	\$4,244,772	\$5,093,726	\$5,942,680	\$18,676,996	
6	\$2,987,182	\$3,733,977	\$4,480,772	\$5,227,567	\$16,429,498	} - Eligible For Benefits
7	\$2,660,273	\$3,325,341	\$3,990,409	\$4,655,477	\$14,631,500	
8	\$2,333,364	\$2,916,705	\$3,500,046	\$4,083,387	\$12,833,502	

### PLAYER A FALLS TO THE 7<sup>TH</sup> PICK IN THE NFL DRAFT

If Player A falls to the 7<sup>th</sup> pick in the NFL Draft, his Actual Contract according to the Rookie Scale will be \$14,631,500, which is greater than the \$13,363,798 Threshold in his Loss of Value policy. In this scenario, Player A will not have any Loss of Value benefits payable.

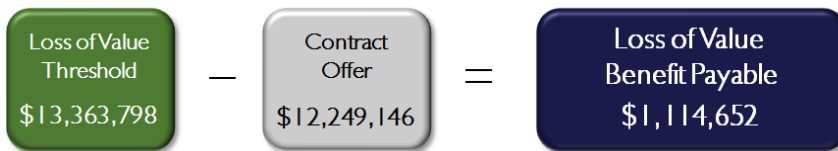
- Projected Contract = \$22,272,998
- Loss of Value Threshold (60% of Projected Contract) = \$13,363,798
- Loss of Value Coverage Limit = \$10,000,000
- Actual Contract Offer = \$14,631,500



## PLAYER A FALLS TO THE 10<sup>TH</sup> PICK IN THE NFL DRAFT

Should Player A fall to the 10<sup>th</sup> pick in the NFL Draft, his Actual Contract according to the Rookie Scale will be \$12,249,146, which is less than the \$13,363,798 Threshold. In the event he qualifies as a claim, the underwrites will take the difference between the Threshold and Actual Contract and a Loss of Value benefit of \$1,114,652 would be payable to Player A.

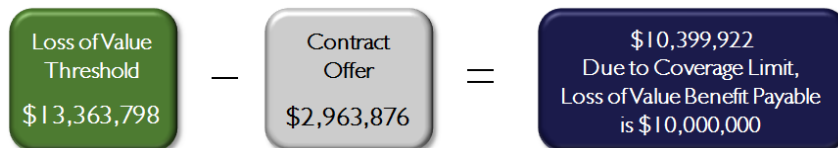
- *Projected Contract = \$22,272,998*
- *Loss of Value Threshold (60% of Projected Contract) = \$13,363,798*
- *Loss of Value Coverage Limit = \$10,000,000*
- *Actual Contract Offer = \$12,249,146*



## PLAYER A FALLS TO THE 74<sup>TH</sup> PICK IN THE NFL DRAFT

In this scenario, Player A falls all the way to the 74<sup>th</sup> pick in the NFL Draft, so his Actual Contract according to the Rookie Scale of \$2,963,876 will be much less than the \$13,363,798 Threshold. The difference between the Threshold and Actual Contract equals \$10,399,922, which is greater than the Loss of Value Coverage Limit of \$10,000,000. In the event he qualifies as a claim, Player A will receive the maximum benefit of \$10,000,000.

- *Projected Contract - \$22,272,998*
- *Loss of Value Threshold - 60% of Projected Contract - \$13,363,798*
- *Loss of Value Coverage Limit - \$10,000,000*
- *Actual Contract Offer - \$2,963,876*



## BASKETBALL PLAYER CASE STUDIES – PLAYER B

- Player B is projected to be the 10<sup>th</sup> pick in the NBA Draft
- Based on the 2014 NBA Rookie Scale, the 10<sup>th</sup> pick would make \$10,849,500 over his 4-year Rookie Contract
- Loss of Value Threshold is set at 60% of the \$10,849,500 or \$6,509,700
- Insurance Underwriter offers Player B a Loss of Value Coverage Limit of \$3,000,000
- Due to a significant injury Player B falls in the NBA Draft

In order for Player B to have a potential Loss of Value claim, Player B will need to fall to the 23<sup>rd</sup> pick or lower before his contract amount will be less than his Threshold amount of \$6,509,700.

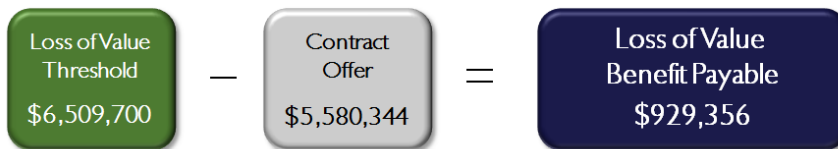
### 2014 NBA ROOKIE SCALE

PICK	2014	2015	2016	2017	TOTAL	
10	\$2,397,840	\$2,505,720	\$2,613,600	\$3,332,340	\$10,849,500	- Projected Contract
11	\$2,277,960	\$2,380,440	\$2,483,040	\$3,294,994	\$10,436,434	} No Loss of Value Benefit Payable
12	\$2,164,080	\$2,261,520	\$2,358,840	\$3,250,482	\$10,034,922	
13	\$2,055,840	\$2,148,360	\$2,240,880	\$3,202,218	\$9,647,298	
14	\$1,953,120	\$2,041,080	\$2,128,920	\$3,152,931	\$9,276,051	
15	\$1,855,320	\$1,938,840	\$2,022,240	\$3,100,094	\$8,916,494	
16	\$1,762,680	\$1,842,000	\$1,921,320	\$2,947,305	\$8,473,305	
17	\$1,674,480	\$1,749,840	\$1,825,200	\$2,803,507	\$8,053,027	
18	\$1,590,720	\$1,662,360	\$1,733,880	\$2,666,707	\$7,653,667	
19	\$1,519,200	\$1,587,480	\$1,655,880	\$2,550,055	\$7,312,615	
20	\$1,458,360	\$1,524,000	\$1,589,640	\$2,451,225	\$7,023,225	
21	\$1,400,040	\$1,463,040	\$1,526,040	\$2,430,982	\$6,820,102	} - Eligible For Benefits
22	\$1,404,600	\$1,404,600	\$1,465,080	\$2,410,057	\$6,623,857	
23	\$1,348,440	\$1,348,440	\$1,406,520	\$2,386,864	\$6,432,184	

## PLAYER B FALLS TO THE 30TH PICK IN THE NBA DRAFT

If Player B falls to the 30<sup>th</sup> pick in the NBA Draft, his Actual Contract according to the Rookie Scale will be \$5,580,344, which is less than the \$6,509,700 Threshold in his Loss of Value policy. In the event he qualifies as a claim, the underwriters will take the difference between the Threshold and Actual Contract and a Loss of Value benefit of \$929,356 would be payable to Player B.

- Projected Contract - \$10,849,500
- Loss of Value Threshold - 60% of Projected Contract - \$6,509,700
- Loss of Value Coverage Limit - \$3,000,000
- Actual Contract Offer - \$5,580,344



## WHAT HAPPENS WHEN THE CONTRACT OFFER IS A DIFFERENT LENGTH THAN THE THRESHOLD?

### “ONE AND DONE” & “PAY BACK” CLAIM PAYMENT METHODS

When the maximum contract offered is a different length than the 4-year projected Rookie Contract, different underwriters will handle the payment of benefits differently.

In the “One and Done” method, only the first contract, regardless of its length, will be used to determine benefits. The underwriters will break down the Threshold into an average per year amount in order to determine the Loss of Value benefit. If the average per year salary amount is less than the average per year Threshold amount, benefits can be payable. However, if the average per year salary is greater than the average per year Threshold, no benefits are payable even though the total contract amount may be less than the total 4-year Threshold amount.

In the “Pay Back” method, the underwriters do not annualize the Threshold. In this method the underwriters will only look at the total contract amount compared to the total Threshold amount when determining if benefits are payable. However, after benefits are paid, the underwriters will continue to monitor the claim over the 4-year period the Threshold was based on to see how much the player ends up receiving over those 4 years. In the event the total salary over the 4 years plus the Loss of Value benefit received exceeds the Loss of Value Threshold, the player will need to repay benefits.

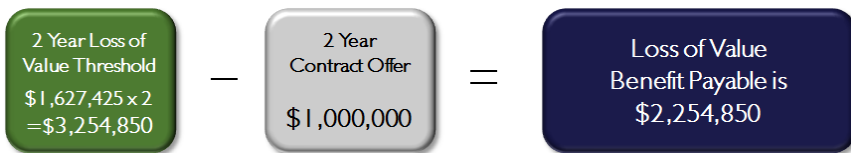


**PLAYER B IS NOT SELECTED IN THE NBA DRAFT AND IS OFFERED A 2-YEAR PROFESSIONAL BASKETBALL CONTRACT OVERSEAS**

- Projected Contract - 4 years, \$10,849,500
- Loss of Value Threshold (60% of Projected Contract) - 4 years, \$6,509,700
- Annual Loss of Value Threshold (\$6,509,700 / 4 Years) - \$1,627,425
- Loss of Value Coverage Limit - \$3,000,000
- Actual Contract Offer - 2 years, \$1,000,000

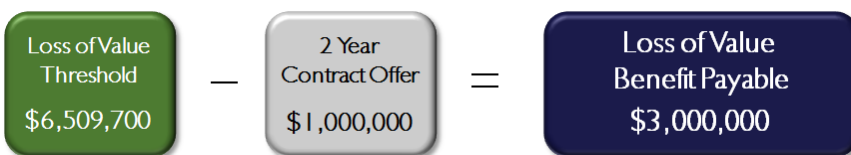
**“ONE AND DONE” CLAIM PAYMENT METHOD**

If the underwriters are using the “One and Done” method, they will break the Threshold down to an annual amount of \$1,627,425. Since the Player received a 2-year Actual Contract, they will multiply the annual Threshold by 2 in order to get a 2-year Threshold amount. In the event he qualifies as a claim, the underwriters will take the difference between the 2-year Threshold and the 2-year Actual Contract to determine that \$2,254,850 would be payable to Player B. Regardless if Player B signs another professional basketball contract he will be able to keep the \$2,254,850.

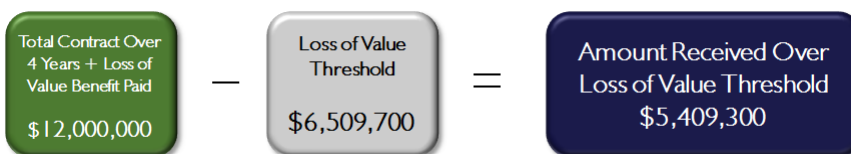


**“PAY BACK” CLAIM PAYMENT METHOD**

If we use the same set of circumstances detailed above but now the underwriters are using the “Pay Back” method, the result would be different. With the “Pay Back” method the underwriters will take the difference between the total 4-year Threshold amount and the total 2-year Actual Contract amount. Since the difference between the total Threshold and total Actual Contract is greater than the Loss of Value coverage limit, the underwriters will pay Player B the full \$3,000,000.



However, after the 2-year contract expires, Player B signs a new 2-year contract worth a total of \$8,000,000, meaning the total salary received over 4 years is \$9,000,000. Player B already received the \$3,000,000 Loss of Value benefit, so when you add that amount to his salary, Player B has received a total of \$12,000,000 over the 4-year period. The underwriters will take that \$12,000,000 amount and subtract the 4-year Threshold amount to determine if benefits need to be repaid. In this example, Player B received \$5,409,300 more than the Threshold amount, so Player B must repay the full \$3,000,000.



## LOSS OF VALUE IMPORTANT COVERAGE TERMS AND CONDITIONS

The important thing to remember is that having a Loss of Value policy in force, suffering an injury or illness and then falling in the Draft does not guarantee a claim is payable. Proving an injury or illness is “solely and directly” the reason for the decrease in the Player’s value may be difficult. Some of the factors that may cause a decrease in value that are Not Covered include:

- *Off-field issues*
- *Poor performance during the season*
- *Poor performance at a Draft Combine*
- *Player was surpassed in the Draft due to another Player’s superior performance*
- *Professional team needs changed (i.e. Team made a trade before the Draft and no longer covets a Quarterback with their 1st Round pick)*

The policy wording even has an exclusion that applies for the Player not receiving an offer from a professional team that totals the Threshold amount or more of compensation for any reason other than due to injury or illness as defined.

It is also extremely important to read the definitions and exclusions very carefully. Below are examples of the definition for “Injury” and “Illness” along with standard policy exclusions found in a Loss of Value policy, which may vary.

## DEFINITIONS

**“Injury”** Bodily injury sustained by the Assured during the period of this Insurance which requires medical treatment by a Physician, and has negatively affected the Assured’s skills in a manner that causes **substantial and material deterioration** in his ability to perform in his Occupation.

**“Illness”** Illness first manifested in the Assured during the period of this Insurance which requires medical treatment by a Physician, and has negatively affected the Assured’s skills in a manner that causes **substantial and material deterioration** in his ability to perform in his Occupation.

## STANDARD POLICY EXCLUSIONS

- *Pre-existing injuries and illnesses*
- *Osteoarthritis, cumulative injury or degenerative joint disease*
- *Drugs or alcohol*
- *Criminal act*
- *Suicide or intentional self-injury*
- *Mental, nervous or psychological disease or disorder*
- *Act of war*
- *Act of nuclear, chemical or biological terrorism*

## LOSS OF VALUE MARKETPLACE

Lloyd's of London is the carrier writing the majority of Loss of Value policies on student-athletes. There are multiple Lloyd's wholesalers offering a Loss of Value product, however the policy wording and scope of players they are willing to offer coverage on can vary significantly.

The annual premium estimate for \$1,000,000 of Loss of Value and Permanent Total Disability coverage ranges between \$7,000 and \$12,000. The premium rates may vary by sport, with the rate for coverage on a football player being higher than a basketball player.

The Loss of Value marketplace has a very limited claims history. The flood of student-athletes currently seeking Loss of Value coverage and pending lawsuits for denied claims will impact this tenuous marketplace.

## BEST PRACTICES

Always be sure that you know what coverage you are buying. Get multiple quotes, from multiple underwriters. Make sure that you understand the terms and conditions of the policy before purchasing anything. Don't be afraid to ask a lot of questions and ask if some exclusions can be removed or definitions can be reworded. Review the exclusions and make sure the following exclusions are removed when underwriting is completed (exact wording may vary):

- *Coverage will exclude any claims arising from injury and/or sickness to any part of the body for which the insured person has been recommended and/or given any medical treatment by a qualified physician during the 18 month period prior to the effective date of coverage.*
- *Coverage will exclude any claims arising from osteoarthritis, cumulative injury or any other degenerative process of the joints, bones, tendons or ligaments.*

During the underwriting process, be as thorough as possible on the application. It is best to err on the side of being over-inclusive when disclosing a student-athlete's medical history. A potential claim could be denied due to the student-athlete omitting something from the application, even if the omitted item has nothing to do with the injury or illness suffered. Make sure the student-athlete is involved in the application process. The application must be signed by the student-athlete; however they should not be signing a blank application to be completed by a parent, coach, trainer, etc. The student-athlete should be involved in providing the answers to the questions.

**Leigh Ann Rossi**  
Chief Operating Officer

Ph: (516) 327-2869  
Fx: (516) 730-2869  
Email: [lrossi@bwd.us](mailto:lrossi@bwd.us)