



It's A Sure Bet
A Proposal for Lottery-Linked Savings

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“A savings ticket is a sure bet. You win every time.”

1. A Grass-Roots Shift to Thrift

Americans today are working hard to get out of debt and to rebuild nest-eggs that have been depleted or lost in the Great Recession. More than six out of ten Americans say that they have cut back on household spending, according to a recent Pew survey. Half have reduced their mortgage, credit card and other consumer debt.

In addition to cutting spending, survey respondents are planning to save more in the future. Close to half (48 percent) say they plan to save more, once the economy recovers.¹ An even higher percentage of younger adults – 68 percent – plan to boost their savings as conditions improve.

The renewed commitment to thrift is reflected in the savings rate. The rate – the share of income that is saved – dropped to 1.7 percent in 2007, has since risen to 4 percent, a promising trend.²

Still, it will take time and a sustained commitment to save in order to boost the savings rate into the ten percent territory achieved in the early 1980s. The road back to solvency will be especially challenging for lower-income families who have lost jobs and homes and who had limited assets and savings even before the Great Recession hit.

In the past, state governments played a key role in helping families of modest means to save. States chartered cooperative banks, buildings and loans, and credit unions to provide a safe and secure way for the “small saver,” and especially for recent immigrants, women and minorities who were not served by other financial institutions. Public schools ran school savings banks to teach children how to save. State-wide campaigns during WW II encouraged parents to invest in U.S. savings bonds. These bonds matured in the post-war years and provided resources for families to buy houses, start businesses and send kids to college.

¹ Pew Research Center, *How the Great Recession Has Changed Life in America*, June 30, 2010.

² In the 1981-82 recession, for example, the savings rate was close to 11 percent (10.9).

In addition to encouraging savings, states took decisive action to shut down activities that encouraged dissavings and debt. Chief among such actions was the banning of lottery games that had become a corrosive and corrupt feature of 19th century American life. For 75 years, between 1894 and 1964, lotteries were banned in every state in the Union. Such government-led initiatives did more than help people save. They also created a culture of thrift that rewarded and reinforced prudential behavior: the ability to plan ahead, build a rainy day fund for unexpected emergencies, save for the major expenditures in the future, and build assets over time.

Today, states have walked away from efforts to help citizens save. Indeed, at the very time when many families are struggling to repair their shattered finances, states are actively undermining such efforts. Instead of launching campaigns for savings and thrift, states are running campaigns for the lottery. Instead of providing opportunities to save for the future, states are aggressively encouraging people to spend their dollars on the lottery and the fantasy of “instant riches.”

State-sponsored lotteries are hurting those who can least afford to wager money on very long odds. Every reliable and independent study of the lottery players finds that those who play most frequently and spend a higher proportion of their household income on the lottery and come disproportionately from low-income populations.

2. A Historic Government Reversal: From Encouraging Savings to Promoting Betting

In the US today, forty-three states plus Washington, D.C. sponsor and promote lotteries as a way of generating revenue for government programs.

New Hampshire was the first state to break the nation-wide ban on lotteries and to institute the first “modern” state sponsored lottery. Other New England states, fearful of losing revenue from residents who crossed into a lottery state to play, took defensive action by establishing their own lotteries. In the following decades, beginning in frugal New England, lottery legalization rolled across the nation, state by state, region by region, until the state lottery, once banned everywhere, became an entrenched institution of state government.

State lotteries have a unique place in government. They are run as private, profit-making monopolies. Their sole mission is to bring in dollars for the state from the sale of gambling products. And they have been extremely successful in doing so. In FY 2008, US lotteries traditional sales totaled \$53.3 billion with the newer electronic video lottery terminals reaching \$4.4 billion

Revenues generated from the lottery take the form of an excise tax, exactly like the excise taxes imposed on the consumption of alcohol, tobacco, or other nonessential luxuries. However, states do not identify lottery revenues as a tax, as they do with other excise taxes. Nor do states own up to the fact that, according to every reliable and independent

(non-gaming industry-financed) study, the lottery is a highly regressive tax. It falls disproportionately on low-income Americans who play more frequently than others and spend a greater share of their household income on lottery products.

No other government program is more heavily and aggressively promoted than the state lottery.³ Lotteries use every imaginable means to market their products, including paid advertising, endorsements, product tie-ins with sports teams, special events and unearned media coverage. Indeed, through its promotional campaigns, the lottery has become the most visible face of state government.

Further, the state lottery has built a retail infrastructure that makes it easy and convenient to play lottery games. Lottery retail outlets are located in mini-marts, supermarkets, gas stations, airports, highway rest stops, bars, and malls – places where people stop off to make daily or weekly purchases of gas, coffee, and milk. More recently, lottery vending machines have been introduced into grocery stores, so that wagering on the lottery is as easy as buying a can of soda. Indeed, lottery ticket purchases are so well integrated into other regular purchases that they have become shopping list staples for many Americans.

3. It's A Sure Bet: A Proposal for Lottery-Linked Savings

We propose repurposing the state lotteries to help citizens save their own dollars for their own future.

The idea is simple:

States will repurpose the retail infrastructure of their lottery outlets to provide a safe and easy way for citizens to buy a savings ticket and establish the habit of savings on a regular basis.

Here's how the savings ticket works:

Any adult who walks into a retail lottery outlet anywhere in the state will have an opportunity to buy a savings ticket. Every dollar a purchaser spends on a savings ticket will go into his or her own numbered savings account. This savings account will earn a small rate of interest and will grow over time.

Plus, savings ticket purchasers can win cash prizes. As soon as they have at least \$25 in their account, their next savings ticket will give them a chance to participate in regular cash prize drawings, including a mega-cash prize drawing once a year. Purchasers of savings tickets are the only ones who are eligible to win.

³ State lotteries are exempt from federal Truth-in-Advertising regulations and are not accountable to the public for verifying the accuracy of their advertising claims. Nor are they required to disclose marketing information on player demographics or other information gathered through their market research.

States will partner with lottery retailers to ensure that the savings ticket is marketed as an attractive opportunity for “winning” every time. They will also devote comparable resources to promoting the savings ticket option as they currently do to promoting popular scratch tickets and other lottery games.

4. Prize-linked savings: A record of success

Prize-linked savings have been successful in other countries and in pilot projects in the U.S. In Britain, for example, the premium bond lottery has been wildly popular for a half century. One out of three Britons invest in these bonds.

Prize-linked savings have also been successful in the U.S., especially among low-income individuals who play the lottery regularly. In several Michigan credit unions, prize-linked savings plan produced “stunning results.” More than 11,000 Michigan residents opened accounts and saved \$8.6 million in 2009. Sixty percent of the participants said they had played the lottery in the past six months, and forty percent earned less than \$40,000.

A lottery-linked savings ticket would be especially good for low-income families who currently spend on the lottery. Contrary to conventional wisdom that savings don’t make much difference to low-income families, recent research indicates that savings of any amount makes a meaningful difference in status, positive outlook, and marriage-eligibility.

States can’t save for individuals. But states can support broader choices and more easily achievable pathways into savings. They can become advocates for, and sponsors of, private savings for families of modest means, most of whom currently do not save at all or who have had their savings decimated in these hard times.

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