

## Deception and the NC Lottery

### News Media Perpetuates the Commission's Exaggeration of Lottery Prizes

Rep. Paul Stam & Rep. Jon Hardister

*February 11, 2016*

Imagine a young man with **\$10,000** in his pocket. He wants to invest it in an annuity. If he purchased it for a single premium today at 5%<sup>1</sup> interest rate, while withdrawing investment over time, he could choose from among the following options:

For 10-years: Receive \$1,321 per year; Total: **\$13,206**

For 20-years: Receive \$868 per year; Total: **\$17,360**

For 40-years: Receive \$793 per year; Total: **\$31,710**

But no matter which annuity option he chooses, it still only costs and is worth \$10,000. The value of the annuity has not changed, but the payout has. Would anyone think that he had tripled his money if he chose to receive it over 40 years?

In January, there was a Powerball jackpot drawing that significantly exceeded any lottery jackpot seen before in the United States. By the time of the drawing on January 13<sup>th</sup>, Powerball, the NC "Education" Lottery, and many news and media outlets advertised the estimated grand prize at \$1.6 billion. However, the actual winnings for the prizes taken were \$983 million.

The NC "Education" Lottery *advertised* the jackpot at **\$1.6 billion**, with an estimated cash value at **\$983 million** if taken as a lump sum. But only the lump sum figure is the value against which probabilities should be computed. The *advertised* value of winnings greatly exaggerates the prize. It could just as well be advertised as a "Trillion Dollar Jackpot" with the option of taking the money over 1000 years for the winner's heirs. That would really get sales moving! But the prize would still only be worth the lump sum. For the recent jackpot, if Powerball had decided to provide the option of a 100 year annuity, they would have reported the jackpot as \$3.04 billion instead of \$1.6 billion.

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<sup>1</sup> Rate may likely be lower than this value; 5% is used for illustrative purposes.

The nominal “jackpot” value is both an inflation of the prize value and irrelevant to the calculation of the odds of winning.

News outlets perpetuated this misinformation using headlines or statements in articles referring to the “\$1.6 billion jackpot”. But there were never more than 983 million jacks in the pot. The operators of Powerball and the NC Lottery understand that the greater the advertised jackpot, the more people will be enticed to purchase tickets. The news media understands that a larger advertised prize will bring more readers, and thus more advertising revenue.

The sad reality is that this sort of advertisement amounts to intentional deception. The individuals and families of North Carolina suffer from it.

**All the billboard advertisements only used the exaggerated prize value.**

**Here are local news sources that only advertised the nonexistent jackpot:**

**WRAL** (Raleigh): “NC pool players match 4 of 5 numbers in Powerball”, January 11, 2016. [[Link](#)]

**ABC 11** (Raleigh): “Powerball Prize up to \$1.5 BILLION, could grow”, January 14, 2016. [[Link](#)]

**WLOS 13** (Asheville): “The Pros and Cons of Powerball Pools”, January 12, 2016. [[Link](#)]

**The Fayetteville Observer**: “Bill Kirby Jr.: Powerball tickets “selling like hot cakes””, January 13, 2016. [[Link](#)]

**News & Observer** (Raleigh): “Celia Rivenbark: The power of winning the Powerball is wasted on some”, January 28, 2016 [[Link](#)]

*Some news sources did clarify what the prize value would be if taken as a lump sum, but only after they first advertised the exaggerated prize of \$1.6 billion:*

**News & Observer** (Raleigh): “Powerball frenzy may bring windfall, but not for NC teachers”, January 12, 2016. [[Link](#)] (Shared article with *Charlotte Observer*).

**WNCT** (Greenville): “Winning numbers for the largest Powerball jackpot”, January 13, 2016. [[Link](#)]

**FOX 8** (High Point): “Powerball: 8 things you need to know”, January 13, 2016. [[Link](#)]

**WCNC** (Charlotte): “And the winning \$1.5B Powerball numbers are...” January 13, 2016. [[Link](#)]

**Here are news sources around the US that perpetuated the misinformation described above:**

**Associated Press** (Nashville, TN): “Tennessee Man Won Third of \$1.6 Billion Powerball”, January 15, 2016. (Republished by The News & Observer on January 16, 2016). [[Link](#)]

**NBC News:** “Powerball Jackpot: Winning Tickets in \$1.5 Billion Lottery Sold in Calif., Fla., Tenn.”, January 14, 2016. [[Link](#)]

**Chicago Tribune:** “Who are the 3 winners of the \$1.6 billion Powerball jackpot?”, January 14, 2016. [[Link](#)]

**Fox News** (Associated Press): “Winning tickets for record \$1.6B Powerball jackpot sold in three states”, January 14, 2016. [[Link](#)]

**Detroit Free Press:** “If you win \$1.5B Powerball, here’s what you’ll give up”, January 13, 2016 [[Link](#)]

**New York Daily News:** “Here are the winning numbers for the \$1.5B Powerball jackpot”, January 13, 2016 [[Link](#)]

**USA Today:** “Winners in 3 states to split record \$1.6B Powerball jackpot”, January 14, 2016 [[Link](#)]

**ABC News:** “Winning Powerball Tickets Sold in At Least 3 States for Nearly \$1.6B Jackpot”, January 14, 2016 [[Link](#)]

**CNBC:** “Tallying the Big Tax Bite of a \$1.5B Powerball Win”, January 12, 2016 [[Link](#)]

**ABC7** (California): “Winning \$1.5B Powerball Jackpot Ticket Sold in Chino Hills”, January 14, 2016 [[Link](#)]

**KCRA3** (New York): “Three Likely Winners in \$1.5B Powerball Drawing”, January 14, 2016 [[Link](#)]

**CBS Baltimore:** “Winning \$1.58 Billion Powerball tickets Sold in California, Florida and Tennessee”, January 13, 2016 [[Link](#)]

**WAFB9** (Louisiana): “And the \$1.5B Powerball numbers ARE...” January 13, 2016 [[Link](#)]

**ABC6** (Philadelphia): “Winning \$1.5B Powerball Ticket Sold in Southern California City” January 14, 2016 [[Link](#)]

## **Deceptive advertising by the Lottery is not limited to inflated “jackpot” values**

The Lottery uses deceptive advertising by deliberately causing gamblers to believe they have a *much greater* chance of winning a substantial sum of money than they actually do. The NC “Education” Lottery advertises the odds of winning, but does *not* transparently match the odds to the particular prize. The Lottery will list the value of the jackpot or highest few prizes, but advertise the odds of winning *any* prize, including the lowest-value prize. For the January Powerball, the lottery described the odds of winning **any** prize from one ticket as about 1 in 25.<sup>2</sup> But the website did

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<sup>2</sup> See [http://www.nc-educationlottery.org/faq\\_powerball.aspx#43](http://www.nc-educationlottery.org/faq_powerball.aspx#43).

not state what that prize would be. Most likely it would be \$4. Most gamblers are aware that the odds of winning the ultimate jackpot are much lower (about 1 in 292 million), but most gamblers are *not* aware that their odds to win even the \$100 prize were only about 1 in 14,494!<sup>3</sup>

The evidence of deceptive advertising on the part of lotteries is not limited to the recent case. Gambling researcher Robert Goodman has called lottery advertising “the pathology of hope” and state lotteries, because of their exemption from truth-in-advertising laws, fully exploit this pathology.<sup>4</sup>

### **As the Lottery Gains, North Carolinians Lose**

It is no surprise that the “potential” for winning the record (though exaggerated) jackpot corresponded with record Powerball sales in the State of North Carolina. What this really means is that a record number of North Carolinians are being enticed by the deceptive tactics of the NC Lottery Commission and the news media to throw away their money on a highly regressive tax (27% tax is embedded in each ticket).

Lottery gamblers disproportionately have lower incomes and less education. They are enticed to spend money for a reward they are much less likely to receive than they even imagine. If this were a private swindle it would be banned by the Federal Trade Commission.<sup>5</sup> But since Lotteries are run by the States they avoid those rules.

Does the North Carolina “Education” Lottery really substantially fund education. Let’s take a closer look...

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Q: What are the odds of winning?

A: The overall odds of winning are 1:24.87. The odds of winning the jackpot are 1 in 292,201,338.

*The FAQ does not tell what prize will be won at 1:24.87, instead it is very specific and precise calculated to the nearest 1/100<sup>th</sup>. This precision is meaningless.*

<sup>3</sup> See <http://www.durangobill.com/PowerballOdds.html> and see page 2.

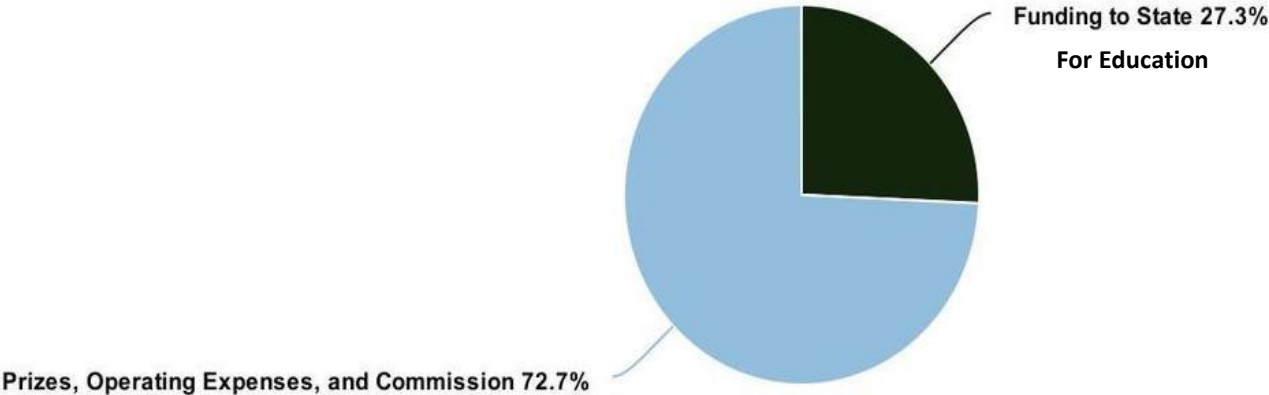
<sup>4</sup> See <http://stoppredatorygambling.org/blog/category/research-center/lottery-advertising/>

<sup>5</sup> The Federal Trade Commission protects against deceptive trade practices (15 U.S.C. §45). Under FTC regulations the official rules of sweepstakes must include basic information including the retail value of the prize(s) offered and the odds of winning.

# The Lottery and Education Funding

*What Portion of the Revenue Generated from the Lottery Goes to Public Education? (FY 2014-15):*

Lottery Revenue Breakdown



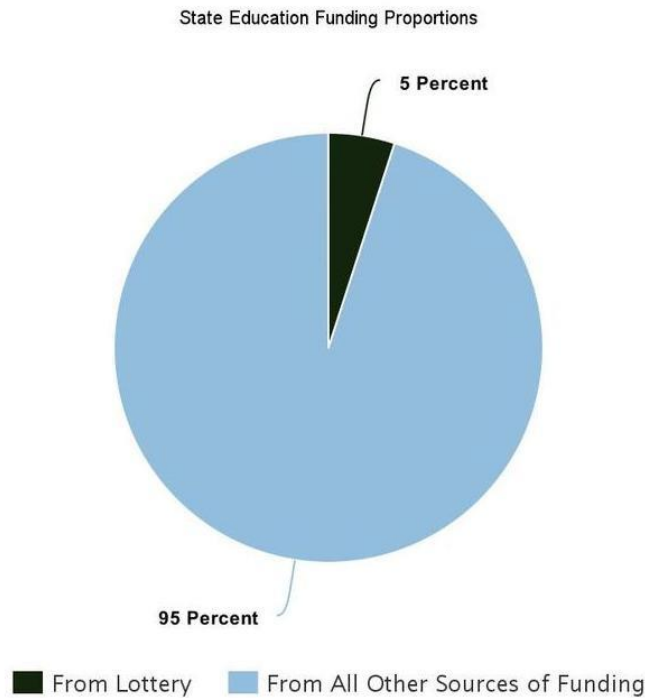
Total operating Lottery Revenue: \$1,844,636,000

Prizes, Operating Expenses, and Commission: \$1,341,206,000

Funding to State: **\$503,430,000**

**Percent of Lottery Revenue that Goes to the State: ~ 27.3%**

*What Portion of Budgeted Funds for Education Comes from the Lottery? (FY 2105-16):*



Total Estimated Funding for NC Public Education for FY 2015-16: \$10.43 billion<sup>6</sup>

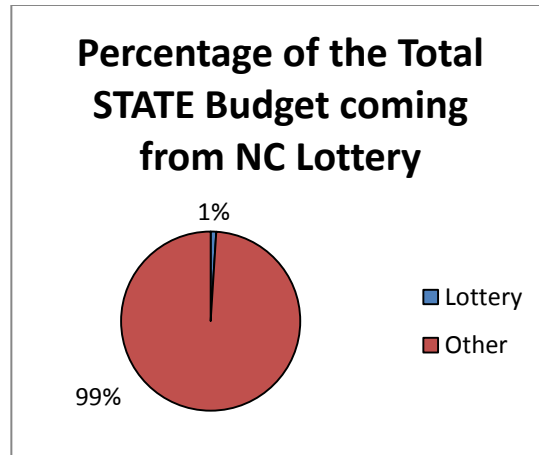
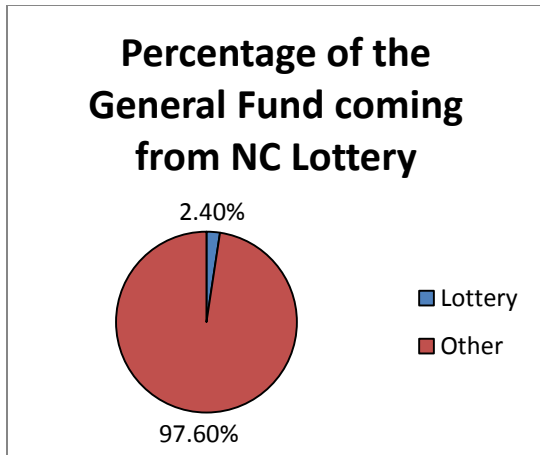
Lottery Revenue Budgeted for Public Education: Approx. \$529,902,000<sup>7</sup>

**Percent of Public Education Funding Coming from Lottery: ~ 5%**

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<sup>6</sup> Represents total value spent on education including State General Fund, State Receipts, and Federal funds

<sup>7</sup> A portion of these funds go to education not included in the public schools portion of the budget, such as Pre-K and college financial aid



Note: As a percentage of the total General Fund (\$21.735 billion), only **2.4%** comes from the lottery; and as a percentage of the total state budget (\$50.4 billion, which includes federal funds), only **about 1%** comes from the lottery.

From these numbers we see two things: First, the lottery revenue that actually goes to the State for education is much less than most people would assume, considering this is an “Education Lottery”. Indeed, many argue that the lottery *reduces* support for education funding because many voters think they have done their part for education by buying lottery tickets.

Second, it would be inaccurate to say that the state significantly depends on funds generated from the lottery for funding public education.

### **Do States Without a Lottery Spend Less On Education?**

In 2013, seven states had no lottery: Alabama, Alaska, Hawaii, Mississippi, Utah, Nevada, and Wyoming.

The average per-student spending for these states in 2013 was **\$11,068**

The US state average per-student spending (excluding northeast states for more accurate comparison because none of the non-lottery states are in this region) was **\$10,552<sup>8</sup>**

**So, as of 2013, states with no lottery spent more per student on education than comparable lottery states!**

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<sup>8</sup> See <http://www.governing.com/gov-data/education-data/state-education-spending-per-pupil-data.html>

## **Do States Without a Lottery Place a Greater Tax Burden on Their Residents?**

In 2015, the average state top marginal income tax rate for the US (again excluding states of the Northeast for consistency) was **5.08%**, compared to an average rate of **4.33%** for non-lottery states.<sup>9</sup>

Likewise, the average sales tax rate for all states (excluding Northeast states) was **6.52%**, compared to an average rate of **6.12%** for non-lottery states.<sup>10</sup>

### ***Having a lottery does not reduce the tax burden.***

The Lottery is not essential for education in North Carolina. But it does teach: bad math, sloth, envy and covetousness.

The Federal Trade Commission regulates sweepstakes and declares a practice deceptive if it “...is likely to mislead consumers and effect consumer behavior or decisions about the product or service”<sup>11</sup>. The FTC mandates that sweepstakes operators advertise the odds of winning the prize in question, and any pertinent material information<sup>12</sup>. The FTC defines material information as “information that would likely affect a person’s choice of goods or services or the person’s decision to make a charitable contribution”.

If lotteries were regulated by the FTC, lottery advertisers would clearly advertise the odds of winning each prize, stating the real value of the jacks in the pot – and stop advertising the illusory “jackpot”.

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<sup>9</sup> See <http://taxfoundation.org/article/state-individual-income-tax-rates-and-brackets-2015>

<sup>10</sup> See <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2015>

<sup>11</sup> Bennett, S. (2007). An Introduction to Sweepstakes and Contests Law. *The Practical Lawyer.*:

[http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-](http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf)

[d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf](http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf)

<sup>12</sup> See <https://www.ftc.gov/tips-advice/business-center/guidance/complying-telemarketing-sales-rule#materialinfo>