

The Ticket to Savings

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Americans spend too much on lottery tickets and not enough on savings. In states that have a lottery the average person spends about \$150 a year on tickets. And in the five states with video lotteries, the average Joe annually shells out more than \$500. Since many people don't buy any, this means that the folks who do buy tickets are spending real money--indeed, more than \$45 billion in total.

Just saying "No" to gambling won't work. Extolling the benefits of abstinence is likely to be no more effective with gambling than it has been with sex education.

If you can't beat 'em, join 'em. Why not create a new lotto that lets people have the excitement of a traditional lottery while they are investing for their retirement?

A lottery savings ticket would look just like a lotto ticket, scratch like a lotto ticket, cost a buck and pay out the same prizes. The only difference would be that half the revenue would be earmarked for a personal retirement savings account rather than for education. There would still be about a third for prizes and the remainder for administering the game.

Setting up a personal retirement account would be no more difficult than setting up a mutual fund. Players would receive a swipeable card that would automatically credit a portion of each losing ticket to the player's retirement account. And why not give the losers a tax shelter? Let their lotto retirement accounts grow, just like a 401(k). Better still, let them grow like a Roth 401(k)--withdrawals never taxed. Don't forget that the unlucky buyers are paying for their lottery tickets with the aftertax money from their paychecks.

Some 20 million Americans spend at least \$1,000 a year on lottery tickets. For these heavy purchasers the new tickets would increase their personal savings by \$500 a year. Invested over 40 years, these savings tickets would generate an expected retirement nest egg of \$200,000. This is a lot of money for the mostly not very prosperous crowd who buy lottery tickets every week. To put the sum in perspective, it is almost as much as what the average worker would get under the recent Archer-Shaw proposal to increase the payroll tax from 12.4% to 14.4%. But unlike a tax increase, this is entirely voluntary.

One of the great difficulties in encouraging private savings has been to find some mechanism that will produce a disciplined pattern of ongoing contributions. The beautiful thing about the lottery is that hard-core players play their number religiously.

We even have an ad campaign: The more you bet, the more you save. If that sounds familiar, it's because we're playing off the American Express campaign for its "One" card: 1% of every card purchase is deposited into the cardholder's personal high-yield savings account. Instead of making you feel guilty about spending money, this credit card lets you feel virtuous.

A similar idea is at the heart of the lottery savings ticket. Instead of denying the pleasure that people get from gambling, we harness it to produce more savings. Perhaps banks might even give out lotto savings tickets rather than toasters with new accounts.

Yes, it is true that we've robbed Peter to pay Paul. We've taken money generally earmarked for education and put that into retirement accounts for the lottery players. We think this is reasonable. The lottery is a strongly regressive tax, and the earmark for education is really a chimera. The government has to pay for education in any case. So the state lottery business is just a disguised tax, levied on people whose share of the national tax burden is already high enough.

The folks buying lottery tickets should be supporting their own retirement, not schools. But if taking the money away from education proves too controversial, we could split the funding, with half going to schools and half going to the retirement account. Or, this could be the seed of a new federal lottery. We are willing to bet that lotto players would prefer a lottery where the house take goes to support them rather than the state budget.

Alas, saving money is boring, but our new lotto savings plan offers an immediate reward and a way of committing yourself to save at least half of what you spend on lottery tickets. The result would be a guaranteed nest egg at retirement. Everyone but the state treasury would be a winner.

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