

# FACT SHEET

## Profit Optimization for Georgia Education

### THE IMPACT OF PRIZE PAYOUTS ON RETURNS TO EDUCATION

- The best performing lotteries in the United States have instant prize payouts between 65% and 76%. The key to the success of these games with consumers is the frequency of winning prizes.
- Out of 44 lotteries in the U.S., Georgia is 2nd in per capita instant sales, with an instant prize payout percentage of 71.3% in FY17. It is 2nd in per capita returns to beneficiaries from instant games among all leading U.S. lotteries. Only Massachusetts has higher per capita sales of instant tickets, and they have the highest instant prize payout at 76%. They also have the **highest per capita return** to beneficiaries.

#### **1. Sales and profits increase significantly for every state that has raised payouts.**

- Virtually every lottery has implemented higher prize payouts in their instant games than in their online (draw) games. Every time, without exception, raising the payout has increased sales and actual dollar returns to beneficiaries.
- In **North Carolina**, the Lottery began sales of instant tickets in March 2007 and received permission to increase prize payouts in early 2008. After raising instant ticket prize payouts from 54% in FY 2007 to 63% in FY 2009, Lottery returns to beneficiaries from instant tickets jumped by \$85 million.
- In **Florida**, instant ticket sales jumped from \$662.5 million to \$2.1 billion between FY 2002 and FY 2006 after legislation was passed to allow the lottery to increase prize payouts. Profits from instant tickets more than tripled in that same period.
- **New York** increased instant prize payouts from 55.4% in FY 1999 to 64.3% in FY 2001 and has continued to increase them. Sales grew by 251% to \$3.6 billion/yr in the subsequent seven-year period with profits also increasing by 238% to \$843 million.
- In **Texas**, instant sales doubled between FY 1999 and FY 2006 to approximately \$2.9 billion following an increase in instant prize payouts from 54.1% to 65.8%. Profits also rose by approximately 95% during this same period to \$693 million.
- **Missouri** more than doubled instant game sales between 2001 and 2006 after increasing prize payouts in 2002, going from \$272 million in 2001 to \$551 million in 2006.
- In 2010, the **California** Legislature removed the lottery's mandated 34% return to beneficiaries, allowing greater flexibility to increase prize payouts. In less than one year the California Lottery has seen dramatic increases in sales and dollar returns to beneficiaries.

#### **2. Reduction or limits in prize payouts have led to dramatic sales decreases and a real decline in return to beneficiaries.**

- In **Texas**, the legislature decreased prize payouts on instant tickets in 1997 from over 61% to an aggregate of 54% in 1999. Over this two year period, instant sales declined by 40% from \$2.4 billion to \$1.4 billion.
- Although the percentage return to beneficiaries increased from 31.6% of sales to 35.0% of sales in that period, the actual **dollars returned to beneficiaries dropped by over \$155 million** (or 24.5%). This trend would have been even more dramatic if the lottery hadn't had a surplus of higher payout games leftover in their warehouse to sell before the change.
- In 1998, the Texas Legislature requested studies to determine why sales and returns had declined. The studies found that 1) infrequent players of instant games felt that the Texas Lottery had greatly reduced the chance of winning, and 2) regular players were spending less because they were winning less frequently.
- After the prize payout reduction was reversed, it took seven years for instant ticket sales to return to 1997 levels (due to a loss of player confidence and the work required to rebuild the instant ticket brand).
- In an effort to increase its percentage return to education, **Georgia** lowered prize payouts in 1997. The move backfired; ticket sales fell by 26% until prize payouts were restored to previous levels. As a result, the lottery returned less money to education than it had in the previous year, for the first time in its history.
- The **Oklahoma** Lottery operates under a mandated return to beneficiaries, and they have the 2<sup>nd</sup> lowest per capita instant sales in the United States.

#### **3. Lottery profits are dependent on meeting player expectations for Lottery instant games.**

- The prizes themselves constitute the lottery's largest return of cash to Georgia citizens. If you take prize money away, you frustrate players and drive some of them away.
- Players play lottery games to win. The more frequently they win, the more they like the product.
- To get players to spend more on a higher prize, you need to offer greater value. The two best kinds of value are more frequent wins and a higher top prize.