

**LOTTERY: ALLOW ONE-TIME
DISBURSEMENT**

**House Bill 5127 with committee
amendment
First Analysis (11-13-97)**

**Sponsor: Rep. David Jaye
Committee: Regulatory Affairs**

THE APPARENT PROBLEM:

The Bureau of State Lottery currently gives players of the Michigan Lotto game the choice of whether to receive a prize in a lump sum or in 25 annual payments. (The lump sum option is not available to players of the "Big Game" multi-state lotto because of statutory limitations in some of the participating states, and the agreement between the six participating states to provide consistent treatment in issues relating to the game.) To meet federal Internal Revenue Service interpretations of "theory of constructive receipt", the payment option must be selected at the time the lottery ticket is purchased. A player choosing the installment plan will receive the full amount of the prize spread over 25 years, but a player who chooses the lump sum option receives the current cash value of the prize (approximately one-half of the prize value). According to information supplied by the bureau, when a prize is paid in installments, the present cash value of the prize is used to purchase U.S. Government Treasury Bonds, which earn interest and mature annually over the 25-year period. The annual interest return is used to pay the amount the prizewinner receives each year. When a player selects the lump sum payment option, the money that would have been used to purchase the treasury bonds is given instead to the prizewinner. So, a jackpot advertised as being \$4 million would actually have a present cash value of \$2 million. Four million dollars is what \$2 million in treasury bonds would earn over 25 years of accumulating and reinvesting the interest. Therefore, a person selecting the lump sum payment option would receive \$2 million for a jackpot valued at \$4 million.

Many people believe that by managing their own investments, they could see a higher rate of return on the initial \$2 million, and so prefer the option of receiving a one-time payment. Other people, especially those with no dependents, may feel that they may not live the full 25 years in order to receive the full prize amount. (In case of the death of a prizewinner, however, remaining payments would be made to a beneficiary.) For whatever reasons, the one-time

payment option has been enormously successful since it was first offered in July of

this year, now accounting for about two-thirds of ticket sales. In order to preserve the choice between prize installments and lump sum distribution for future consumers, legislation has been proposed to place the option in statute.

THE CONTENT OF THE BILL:

The bill would amend the McCauley-Traxler-Law-Bowman-McNeely Lottery Act to require the Bureau of State Lottery to give a prizewinner the option of receiving his or her prize in a single payment or in installments. The option would have to be made available to a person buying a lottery ticket, and the person would have to choose between taking a prize in a lump sum or in installments, at the point of purchase.

MCL 432.25

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill is expenditure neutral and so would have no state or local fiscal impact. (11-6-97)

ARGUMENTS:

For:

The fact that the majority of Michigan Lotto players are selecting the lump sum payment option (approximately two-thirds of players) demonstrates that such a choice should be preserved for future players. Though the Bureau of State Lottery supports such a practice now, the bill would ensure that the payment option would be protected against possible administrative and personnel changes through the years.

Apparently, many players feel that they can match or beat the investment earnings on the present cash value of the prize, or have concerns that they may not live long enough to receive the 25 yearly installments. For

whatever reasons, players have shown that they like having a choice. Since the lottery is here to stay, and since state government is becoming dependent on ticket sales for revenue to help fund school budgets (fiscal year 1996-97 revenue from the Michigan Lotto was approximately \$228.5 million, with 36-37 percent going into the school aid fund) the option to decide how to receive lottery winnings should be preserved in statute to satisfy customer preference. Also, though currently feasible only for the Michigan Lotto game, the bill would ensure availability of the lump sum payment option for any games developed and offered in the future.

Against:

As the Bureau of State Lottery has offered Michigan Lotto players the choice of payment options since July, and since it has proven to be very popular, there simply is no need for the bill.

POSITIONS:

The Bureau of State Lottery has no position on the bill. (10-21-97)

Analyst: S. Stutzky

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.