

Abstract:

Lotteries are an important source of revenue for nearly every state government – as of 2022, there are only five states that have not established a state lottery. Some lawmakers have expressed concerns that money spent on legalized sports betting could reduce lottery revenues, resulting in lost funding for much-needed government programs such as public education and infrastructure. However, evidence from states with legal sports betting shows that lottery revenues still thrive, and in fact have increased, regardless of “competition” from legal sports betting. This is because most legal sports betting revenues are derived from converted black market customers, not other discretionary spending. Likewise, lottery player demographics and surveys of attitudes towards sports betting show that current lottery customers are unlikely to consider diverting their lottery spending despite the prevalence of legal sports betting options. Rather than viewing sports betting as competition, state lotteries have the opportunity to convert the challenging millennial demographic of sports bettors to lotteries through targeted marketing and product innovation.

Lottery Contributions are Significant

State lawmakers may have concerns with authorizing any new activity with the potential to diminish the significant contributions that lotteries make to state budgets. Among states with lotteries, the average per capita spend is \$225.¹⁴ The largest state lottery system is New York, which generated sales of \$8.6 billion in fiscal year 2021.ⁱⁱ While not every state has such significant reliance on its lottery, lotteries do play a major role in funding critical state government functions wherever they exist. From their inception, lotteries have always had to compete with other forms of discretionary spending, such as shopping, casino gaming and other forms of entertainment. In this case, the new form of entertainment is sports betting, which states are now free to regulate if they so choose.

Fortunately, the authorization of sports betting does not diminish lottery revenues, and may in fact strengthen them if lotteries capitalize on the opportunity legal sports betting presents. Because sports betting is already happening in illegal markets, attracts a very different demographic, and has not negatively affected lotteries in states where it is already regulated, we can conclude that state lotteries and regulated sports betting can coexist.

Real-World Evidence Shows How Sports Betting and Lottery can Thrive

In fiscal year 2021, the New Jersey Lottery had its most successful year to date. Lottery revenues increased 14.6% over the previous year to an all-time high of \$3.68 billion.ⁱⁱⁱ This impressive surge occurred despite the fact that regulated sports betting has been taking place in New Jersey since 2018 and growing astronomically. New Jersey sportsbooks are on pace to handle more than \$10 billion in sports bets in 2021,^{iv} making New Jersey the largest sports betting market in the country. Clearly, though, sports betting dollars are not diminishing lottery spend.

Likewise in Pennsylvania, fiscal year 2021 was a record-setting year for the PA Lottery, with over \$6 billion in sales, including online lottery play.^v Significantly, revenue from sports betting and online casino (I-Gaming) also far surpassed previous records.^{vi} The availability and popularity of legal sports

betting options, as well as online casino (I-Gaming), in Pennsylvania clearly had no discernible ill effects for the lottery.

As discussed below, most of the sports betting spend in these markets presumably comes from former customers of unregulated offshore sportsbooks and local bookies, not at the expense of other discretionary spending such as lotteries.

Lottery Participants Aren't Choosing Sports Betting Over Lottery

When it comes to how existing lottery players view sports betting, a 2018 survey provides valuable insight. When existing lottery players were asked how legalized sports betting would impact their lottery spending, 21% answered that they would spend more on lottery, while only 6% said they would spend less. The remaining 73% said that it would have no impact on their current lottery spending^{vii}. Also interestingly, among the 6% who said they would divert some lottery spending to sports betting, 50% of these people said they would move less than ¼ of their current lottery spending.

These self-reported statistics have proven remarkably accurate when compared to real world results. One year after the legalization of sports betting in New Jersey, a group of lottery players who bet on sports were asked how the availability of legal sports betting has impacted their lottery play. 33% said they were playing the lottery more, 46% said they were playing the lottery the same amount, and only 21% said they were playing the lottery less^{viii}.

Sports Betting is Already Happening

Even in states that have yet to authorize sports betting, the overwhelming evidence shows that Americans are betting on sports via offshore websites and local bookies. Prior to the repeal of PASPA, which gave rise to the current wave of U.S. sports betting legalization, some estimated that U.S. customers bet approximately \$150 billion on sports through black market channels.^{ix} But many Americans don't even know that offshore websites or local bookies are violating the law – according to a 2019 survey, only 41% of Americans know that placing a bet with a bookie is illegal.^x Meanwhile, illegal online websites located on foreign soil routinely place ads in numerous U.S. media channels and often dominate internet search term results.

Even in states without regulated sports betting options, sports betting is already happening and state lotteries are already feeling its effect whether they know it or not. In fact, in New Jersey, which has become the unquestioned leading state in regulated sports betting, only one out of ten sports bettors started betting within the past year.^{xi} This means that the overwhelming majority of New Jersey Sports bettors were already taking part in this activity well before it became officially legal in June, 2018. While the availability of legal sports betting options will very likely increase the total amount of sports betting taking place, the majority of legal sports bettors will not be new customers, but converts from the illegal market. This would minimize the competitive effect that legal sports betting will have on lotteries, if we were to assume that sports betting and lotteries are competing for the same customer dollars, which also does not seem to be the case, as discussed below.

Sports Betting and Lotteries have Different Demographics

According to polling, 89% of sports bettors also partake in the lottery.^{xii} There is enormous overlap between sports bettors and lottery players, yet there are key differences that distinguish these two activities and those who play. While the lottery is almost an even split between male and female participants, approximately 80% of sports bettors are male.^{xiii} Sports bettors are more likely to be

employed full time (65%) than lottery players (45%), and there is a higher percentage of sports bettors with household income over \$75,000 (45%) than among lottery participants (38%)^{xiv}. Sports bettors are also 5% more likely to have a college degree than the average lottery customer.

The most significant difference however, is the age of the average participant – for sports betting the average age is 38.1, while the average lottery player is 48.5 years old^{xv}. Among lottery players, only 29% are age 18-34, and 36% are age 55 and over. Among sports bettors, 50% are age 18-34, while only 11% are 55 and over^{xvi}.

Because there is a relative lack of interest in sports betting among the older age group, sports betting is unlikely to draw customers away from the lottery's core demographic. Based on the strong 2021 revenue results from lotteries in states with legal sports betting, this trend appears to be holding true.

How Sports Betting Legalization Can Help the Lottery

Sports betting attracts a younger audience of participants, which as a group is less likely have an interest in traditional lottery offerings. For many years, lotteries have experienced a decline in millennial customers as tastes and interests change, a trend that has worried many state lottery directors as they look to find ways to appeal to this new generation.^{xvii} While the spread of legal sports betting is unlikely to draw millennial customers away from lottery activities, it may have the inverse effect of creating lottery participants out of sports bettors.

If lotteries focus on cross-selling to millennial sports bettors, they are likely to find a receptive market with higher-than-average household income. The rise of lottery revenues in New Jersey and Pennsylvania, even while sports betting has churned billions of dollars in handle, shows that there is plenty of discretionary spending to allow both products to thrive. If lotteries institute the innovative features that have made sports betting successful, such as sports tie-in products, payment options for an increasingly cashless society, and games that revolve less around pure chance, legal sports betting could create a window of opportunity for lotteries to convert sports bettors into future customers.

ⁱ John Harrington, States that are addicted to the lottery have a lot in common, *USA Today*, October 26, 2018. Available at <https://www.usatoday.com/story/money/economy/2018/10/26/states-spend-most-per-capita-lottery/38272791/> [Accessed December 18, 2019].

ⁱⁱ See New York Lottery Financial Reports. https://edit.nylottery.ny.gov/sites/default/files/2021-08/final_NYSL_FS_2021.pdf

ⁱⁱⁱ <https://www.insidernj.com/press-release/new-jersey-lottery-announces-record-sales-fiscal-year-2021/>

^{iv} <https://www.legalsportsreport.com/60809/november-2021-revenue-nj-sports-betting/>

^v <https://www.palottery.state.pa.us/About-PA-Lottery/News-Events-Media/News/2021/August/Pennsylvania-Lottery-Sets-New-Record-for-Sales-and.aspx>

^{vi} <https://apnews.com/article/sports-business-health-government-and-politics-pennsylvania-e11acc4ea00e274e33c06d92e91931a>

^{vii} Simon Jaworski, Sports Betting & Lottery Leger U.S. Omnibus, June 30, 2018.

^{viii} Ipsos, Legal Sports Betting; One Year Later, NASPL Presentation, July, 2019.

^{ix} American Gaming Association, 97% of Expected \$10 Billion Wagered on March Madness to be bet Illegally, March 12, 2018. Available at <https://www.americangaming.org/new/97-of-expected-10-billion-wagered-on-march-madness-to-be-bet-illegally/> [Accessed December 18, 2019].

^x American Gaming Association, Sports Betting Consumer Study, March 29, 2019. Available at <https://www.americangaming.org/resources/sports-betting-consumer-study/> [Accessed December 18, 2019].

^{xi} Ipsos, Legal Sports Betting; One Year Later, NASPL Presentation, July, 2019.

xii Id.

xiii Id.

xiv Id.

xv Id.

xvi Id.

xvii Andrew Kelly, US lottery operators worry as fewer millennials line up to play, *CNBC*, February 10, 2017.

Available at <https://www.cNBC.com/2017/02/10/us-lottery-operators-worry-as-fewer-millennials-line-up-to-play.html> [Accessed December 18, 2019].