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## **Debunking The Myth: The Surprising Truth About Lottery Winners And Life Satisfaction**

About a year ago, I got a call from an old college friend whose aunt had just won the Powerball jackpot. He was looking for a wealth management firm to help his aunt, and he knew that my firm specializes in assisting ultra-high-net-worth families.

While my first thought was how exciting it must be for my friend's aunt, my second thought was concern because I was under the impression that winning the lottery usually ruins the winners' lives. But it turns out I was wrong. As I discuss below, contrary to popular belief, studies show that jackpot winners report improved life satisfaction and don't usually blow through their newfound wealth.

### **Why We Think That Winning the Lottery is Damaging**

The misconception that winning the lottery ruins lives is commonplace. Over the past year, I've informally surveyed dozens of people by asking them whether they thought winning the lottery was a positive or negative experience for the winners over the long run. The vast majority shared my impression that winning a jackpot is destructive. Common responses to my inquiries included, "Don't most lottery winners go bankrupt within a few years?" and "I've read that most lottery winners say they were happier before they won," and even, "Winning a jackpot ruins the winners' lives."

Why do we tend to have this belief? Three sources are primarily to blame.

### **Media Reports of Ruined Lottery Winners**

First, the media reports on stories of ruined lottery winners. Of course, some lottery winners go bankrupt, and some wish they'd never won. The media finds these tales of woe and publicizes them. Articles with catchy headlines like "The Tragic Stories of the Lottery's Unluckiest Winners" (*TIME Magazine*), "A Treasury of Terribly Sad Stories of Lotto Winners" (*The Atlantic*), and "The Bad Luck of Winning" (*The New York Times*) generate eyeballs on pages. And we click on these stories because the idea of miserable jackpot winners is appealing — we'd like to think that money doesn't buy happiness (especially if we don't have much ourselves). While these articles make for compelling reads, as the studies discussed below show, they aren't accurate reflections of the experiences of most lottery winners.

### **The Commonly Cited 70% Bankruptcy Statistic**

Next, our mistaken beliefs about lottery winners come from a commonly cited statistic that 70% of lottery winners end up bankrupt within a few years of winning. This bankruptcy statistic has been

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repeated so often that it is accepted as fact (I had heard it years ago and had taken it as gospel). But it's not a fact. The 70% statistic originates from a 2001 symposium of experts on the impact of financial windfalls convened by the National Endowment on Financial Education (NEFE). One of the experts mentioned the 70% statistic, which was picked up by the media and spread like wildfire (again, the notion of bankrupt jackpot winners is oddly satisfying).

In 2018, the NEFE attempted to quell the misinformation. It issued a statement that said the 70% statistic “is not backed by research from NEFE, nor can it be confirmed . . . frequent reporting—without validation from the NEFE—has allowed this ‘stat’ to survive online in perpetuity.” So, apparently, the expert just made it up.

### The 1978 Study on Lottery Winners and Accident Victims

The third reason we think winning the lottery isn't all it's cracked up to be is because of an influential 1978 study comparing the happiness of lottery winners, recently paralyzed accident victims, and a control group (a pretty diverse group!). The researchers found that the lottery winners, while happier, weren't much happier than the control group and that the accident victims, while substantially less happy than the controls, weren't as unhappy “as might be expected” (whatever that means). This oft-quoted research study is typically cited for the proposition that we completely habituate to our external circumstances, whether a joyous event, like a financial windfall, or a negative one, like injury or illness. After a while, we return to our base level of happiness regardless of what happens to us.

The two main problems with concluding this based on the 1978 paper are, first, that's not what the researchers found — the lottery winners were happier, and the accident victims were less happy — and second, the study only surveyed 29 accident victims, 22 lottery winners, and 22 control-group members, a tiny sample size which renders its conclusions suspect. Plus, psychologists and economists now believe that our adaptation to events isn't complete — positive life events like marriage can permanently boost our sense of well-being, and adverse events like the death of a spouse can permanently impair our base level of happiness.

### Actually, Winning the Lottery is Usually Great

If you stop and think about it, winning the lottery should be a positive life event because having more money means greater financial security and a bigger buffer against adverse wealth shocks like losing a job or a significant health expense. And while money doesn't create happiness on its own, it allows you to do things that generate life satisfaction, like helping others, paying for rewarding experiences, and having higher-quality leisure time.

This is what two recent research studies confirm what common sense suggests: winning the lottery is usually great.

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The first study, from 2019 by researchers at the University of Warwick and the University of Zurich, used a considerable dataset — fifteen years of the “German Socio-Economic Panel” (or SOEP). The SOEP has been surveying 15,000 German households since 1984. Periodically, it asks them questions about household composition, employment, occupation, earnings, health, and overall financial and life satisfaction. Notably, since 2000, the SOEP has asked whether the respondents had won the lottery recently and, if so, how much they won. That lottery question, combined with others about overall financial and life satisfaction, allowed the researchers to compare how the winning households answered the satisfaction questions both before and after their win.

The researchers focused on the 617 households that won a “substantial amount” in the lottery during the study period. The amount won ranged from thousands to millions of Euros, and the average amount won was 60% of the German annual household income. After analyzing the data, the researchers concluded that winning the lottery improved the winners’ sense of overall life satisfaction. And the more they won, the more significant the positive effect.

The second study, from 2020 by researchers from Stockholm University, Stockholm School of Economics, and New York University, surveyed 3,000 Swedish lottery winners about their psychological well-being between 5 and 22 years after they won the lottery. Like the German study, the researchers concluded that lottery winners experienced “sustained increases in overall life satisfaction.” They found that these effects persisted for over a decade and showed no evidence of dissipating over time.

Further, the researchers found no evidence that the winners blew their newfound wealth on extravagant purchases. Instead, they tended to spend their winnings slowly over many years. Most didn’t quit their jobs, but they did tend to work less. The lottery winners had more and higher-quality leisure time after winning the lottery, and this improved leisure time contributed to their enhanced sense of well-being.

These two studies confirm what common sense would suggest: winning the lottery is usually pretty great. Stories of lottery winners whose lives were ruined by their windfall aren’t representative of the experiences of most winners.

### What Lottery Winners Teach Us About Money and Life Satisfaction

Whether money makes people happier has been an area of intense research over the past few decades. While most studies find a positive relationship between money and life satisfaction (see this study on income and well-being and this one about wealth and happiness), it can be tricky to determine whether more money causes happiness or whether happier people earn more money.

Studies of lottery winners provide unique insight into the relationship between wealth and life satisfaction because winning the lottery is random and sudden. Thus, the financial gain is unrelated to other determinants of well-being. According to economist Justin Wolfers, “the random assignment

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[of lottery wins]. . . isolates the effect of extra money in driving satisfaction.”

These studies teach us that all else being equal, money is associated with a greater sense of life satisfaction and well-being. Of course, money on its own may not bring happiness. Still, as noted above, it provides resources to do other things associated with happiness and is a buffer against negative wealth shocks.

So, go ahead and buy those lottery tickets! And if you happen to win the lottery, count yourself lucky, and don't panic. You'll likely go on to lead an even more satisfying life.

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