TheStreet

So You Want to Be a Billionaire? Buy Lottery Tickets, Maybe

ROBERT MCGARVEY · JUN 29, 2016 9:26 AM EDT

It's not your imagination. Lottery jackpots are getting bigger - a lot bigger.

The January 9 Powerball jackpot hit a record-shattering $1.586 billion, but know this: you will get more chances to become an instant billionaire, because there are certain to be more gigantic jackpots. Right now, the Powerball jackpot is at $222 million but MegaMillions is at $415 million (the largest ever was $656 million in March 2012).

There are reasons for the huge jackpots.

The Multi-State Lottery Association (MSLA), which runs Powerball and also Mega Millions, took steps last October to make sure jackpots would be eye-popping and huge. The steps worked. What does it mean? And the money question: should you play?

Powerball is simple. Buy a ticket and you get five white balls and one red, the Powerball. Match all, and you are in the winner's circle. You can pick your own numbers or let the computer do it for you.

A spot of history. Before January 9, the largest Powerball winner was a measly $590.5 million in May 2013. Except maybe that winner is the biggest winner ever, because she won it by herself. On January 9, three separate tickets won, meaning the prize was split three ways.

The March 2012 Mega Millions jackpot of $656 million also had three winners.

Still, nobody can gripe about turning a $2 investment into more than $525 million in that January jackpot - and it is destined to happen again and again. That's the case with Powerball at least, and that is because on October 7, 2015, the MSLA jiggered the odds by adding more white balls into the draw - the new number is 69, up from 59. It also decreased the number of red balls - the Powerball - from 35 to 26. That accomplished two things. It became easier to win a prize - namely the $4 payout for matching the Powerball - but it became much harder to win the jackpot. The odds of winning something now are 1 in 24. The odds of winning the jackpot are 1 in 292,201,338. That's up from 1 in 175,000,000. Big difference.

"Winning the lottery is getting less likely," said James P. Howard, a data scientist who also teaches statistics at the University of Maryland University College. "It's an odds thing."

"Under the new odds, you are roughly 1.7 times less likely to win than under the old system," said Matt Bailey, an associate professor in the school of management at Bucknell University. "This was manufactured to create large jackpots and more ticket sales even though this is actually worse for the players."

A byproduct of this is that the probability the jackpot will rollover - which is what happens when no one wins - is much higher. When the jackpot hit $1.6 billion, it had rolled over every drawing - twice a week - since November 7. No winner means rollover, which translates into eye-popping jackpots.

Why did the MSLA do this? Simple: "People get swept up when there's a big jackpot," said Bailey. When the jackpots cross a threshold, sales spike, added Bailey, who indicated that after $200 million excitement - and ticket sales - jump. For the $1.6 billion dollar jackpot, in the vicinity of 500 million tickets sold in the several days leading up to it.

Why? Big money fuels big dreams. "When it gets high enough people see it as a way to go from being in the 99% to being a member of the 1%," said author Christopher Sharp. Suddenly, people who never buy lottery tickets are lined up at 7-11, probably because everybody else is playing and who wants to be left out?

You did not win a share of the January billion dollar jackpot, and now you want another chance at a billion? Walt Hickey at fivethirtyeight.com has calculated that before the tweaking of the odds, the chance of a billion-dollar jackpot in any five year period was a slim 8.5%. Now it is 63.4%. We are definitely going to see more massive jackpots. That is a sure thing.

Which brings us to the question: should you play? Data scientist Howard shrugged: "It's definitely not a good idea to buy lottery tickets. Someone will win and it probably won't be you."

Bucknell's Bailey offered a more nuanced perspective: "I don't plan on buying a ticket, but I don't see buying a ticket as a 'bad' decision. Financially it clearly is, but if it is for fun and allows you to dream about buying a yacht, then by all means, buy a ticket. As with any gamble or entertainment spending, just don't spend more than you can afford."

This article is commentary by an independent contributor. At the time of publication, the author held TK positions in the stocks mentioned.