

# Should Mega Millions jackpot winners take a lump-sum payout or annuity?

Experts say winners should generally take the money in annuities, but that's not what most people do.

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By [Andrew Jeong](#)

The winner of [Friday's Mega Millions lottery drawing](#) will receive an estimated \$1.22 billion — the fifth-biggest jackpot in the game's history — but only if they forgo the immediate lump-sum payment and choose the annuity.

Most winners go for the immediate payout — in Friday's drawing worth \$549.7 million — but experts say they could be making a mistake.

When a winner accepts the annuities plan, the prize is spread out in payments across three decades, with each annual payment increasing by about 5 percent to protect against inflation. Both options are subject to income taxes — although some states such as California [exempt](#) lottery earnings. The annuity option spreads out the tax burden in addition to the payments.

Annuities generally pay out a larger sum in the long run and shield winners from the temptation of spending lavishly and going broke, personal finance experts say. Lottery operators fund the annual payouts by investing the money in secure government bonds that pay lower interest than stocks or funds but are considered ultrasafe.

“In addition to being a relatively safe investment, the annuity gives the winner time to adjust to dramatically new financial circumstances,” said Terrance Odean, a finance professor at the University of California at Berkeley's Haas School of Business — and learn from any initial mistakes they make.

Michael Finke, a professor of wealth management at the American College of Financial Services, said annuities and structured settlements are for “anyone who might otherwise be vulnerable to prematurely spending down savings because of either a lack of patience or financial sophistication.”

Finke pointed to how current and former professional baseball players including Bobby Bonilla, Ken Griffey Jr. and [Shohei Ohtani](#) have opted to receive their millions in annuities, protecting them against the possibility of indulging in their riches too quickly.

Research has shown some pro athletes who made millions went bankrupt soon after retiring. A 2015 study published by the National Bureau of Economic Research showed that 15.7 percent of retired NFL players had gone bankrupt within 12 years of retirement.

There is little evidence, however, that shows lottery winners tend to go bankrupt. One 2020 study by researchers in Sweden and the United States said “lottery wealth dissipates slowly” and was “robustly detectable for well over a decade” after the lottery win. In 2018, the National Endowment for Financial Education said that it had no data to back the frequently mentioned statistic that says around 70 percent of lottery winners end up bankrupt in just a few years.

Although annuities are generally the wiser option, experts noted some exceptions.

**Javier Estrada**, a professor of finance at the IESE Business School in Barcelona, said lottery winners should take into account their age when deciding whether to accept their jackpot in annuities. “All else equal, the older the person, the less convenient the annuity,” he said in an email.

Mega Millions winnings can be passed on to beneficiaries in case of death. But annuities may complicate that transfer of wealth, Estrada said.

For recipients of inheritances or legal settlements, Estrada advised that if the recipient is a retiree with their future financial needs covered, they should take the money in a cash lump sum, because that would enable the person to “do some things on the ‘would be nice if I can afford it’ list.”

Annuity.org, a website that connects potential buyers of annuities to sellers, said lump-sum cash options are better tailored to those who are prudent investors and can generally repress impulses to overspend. Annuities — despite the stability — are inflexible and could interfere with accessing cash in emergencies.

Any winner of a big lottery jackpot should consult a licensed professional, said Yuval Dan Bar-Or, a professor at Johns Hopkins University’s Carey Business School. That might include a lawyer, accountant or financial adviser.

At the end, there’s no right or wrong answer, he said. “The good news is that, with very large jackpots, either choice yields huge, life-changing windfalls,” he said.