



Penny Breakage

**Returning rightful winnings to
horseplayers and stimulating North
America's tote pools**

Executive Summary

The topic of breakage in North America's horse racing tote pools has gone largely untouched for nearly a quarter-century, and before that, relatively unchallenged. Many casual racing bettors, and even many horsepeople, are unaware of its existence.

Breakage is the difference between what horseplayers **should** receive on a winning bet and what they **actually** receive. The concept has been ever-present in racing since the pari-mutuel tote system was implemented – with bet-takers (in the early 20th century) claiming breakage was necessary to keep the flow of customers moving, helping betting churn, saving tellers from having to pay odd amounts (\$2.98), instead relying on a rounded figure (\$2.80).

If this seems unfamiliar to you, or you have never noticed this before, you aren't alone. Few realize that the calculated dividend a winning horseplayer receives is rounded down, in many cases, to the nearest dime per dollar wagered. In ordinary life, breaks to the penny are common. Think about filling your car's gas tank, paying for produce or just about anything that required payment based on weight. In horse racing, breaks to the penny have thus far only been a dream.

From the 2018 Triple Crown races, Justify's three wins yielded total win pool breakage of more than \$1 million. The Preakness alone generated more than \$500,000 in breakage from the win, place and show pools (WPS).

Breakage occurs in almost every pool, but the impact of rounding is much greater when payouts are smaller – the percentage withheld is large when the return to the customer is small. This impacts place and show pools more than others, making such wagers largely unattractive to big players.

The Thoroughbred Idea Foundation (TIF) estimates annual breakage in America is worth roughly \$50 million – or 0.45% of the \$10.9 billion wagered in 2017. If breakage was returned to horseplayers and churned through the tote pools, even at a blended takeout rate of 20%, TIF believes this could yield an extra \$200 million handle, or an approximate 2% increase in handle at current levels. That equates to the largest single year percentage increase in handle over the last 15 years.

Breakage is retained by the bet-taker. If the bet-taker is an advanced deposit wagering outlet (ADW) online, the ADW keeps the breakage. If the bet-taker is a brick-and-mortar location, like a racetrack, breakage is withheld and distributed according to the individual jurisdiction's regulations. Most states split breakage amongst several eventual sources – often between racetracks, the state, purse funds, state-bred incentives or other programs.

The regulations about breakage were designed prior to the internet era, and even before racetracks employed self-service machines. They have remained the same, essentially, for as long as a pari-mutuel tote system has been employed in North America. Handle continues to shift away from traditional cash channels and more to online ADWs. Breakage no longer reaches its originally intended sources to the degree it once did.

TIF suggests the industry should take steps to shift to penny breakage. Instead of rounding down a win mutuel of \$3.78 to \$3.60 for a 3-5 winner, the full \$3.78 would be paid. Concurrent with the shift to penny breakage, long-held requirements for mandatory minimum payouts – typically either \$2.10 or \$2.20 – should also be abolished in favor of penny breaks. The newest minimum payment would be \$2.02 – the equivalent of a penny of breakage for each dollar bet.

Taking this step would eliminate the need for tracks to seed “minus pools,” occurrences when a horse has a supermajority of the action in a pool and the total amount of the pool, after takeout is deducted, is insufficient to pay the winners to the current mandatory minimum required. In 2017, the New York Racing Association netted just 3% of the breakage they retained breakage after deducting taxes from the accrued breakage and their \$1.8 million in payments to settle minus pools. The impact of breakage to tracks might not be as significant as speculated.

Breakage represents an opaque practice in an era where pricing transparency is essential to the wagering customer, particularly in the face of a growing competitive marketplace with far lower takeout rates. Economists and industry consultants agree racing's declared takeout is too high, yet breakage only adds to the burden, yielding effective rates that can push nearly 21% in the win, place and show pools, far higher than what is advertised.

The nature of racing wagering has changed. Most bets are placed away from host tracks, often online. Many on-track wagers have shifted to the use of cash vouchers. Technological advancements and evolution have rendered antiquated the concept of retaining breakage. Racing is in great need of modernization in many facets while seeking means of increasing wagering from its customers. Industry stakeholders should advocate with their regulators for a shift to penny breakage.

To read the full paper on breakage, visit RacingThinkTank.com.

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