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Easy money, but hard living

More people drawn to contests and sweepstakes as economic times get tough, but winners find prizes come at a price

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ATLANTA — As night falls, last-minute shoppers scurry out of Perimeter Mall while Neva Richardson settles in for the night.

She takes a rolled-up sweater and places it behind her head. She struggles to find a comfortable spot, but it is difficult to get a good night's rest sitting behind the steering wheel of an automobile.

This was Richardson's life for 30 days, 15 hours and 32 minutes — the amount of time she lived in a car parked in the mall's lobby in order to win a red 2008 Mercury Milan worth \$24,000.

But like many big prize winners, Richardson, a 27-year-old married mother of two from suburban Atlanta, quickly learned that nothing is ever really free. She ended up with an \$8,000 tax bill and no means of paying it. And while she was away from work for a month, she got voice mail from her employer informing her that she had been fired from her job as a health insurance agent.

"It's OK because I got a new car," said Richardson, who entered the radio station contest because she was in dire need of a new car and could not afford to buy one. "I came in mentally prepared to be here for 31 days, and I am proud of myself because I pulled it off."

In these tough economic times, more and more people are trying their luck at sweepstakes, contests, lotteries and promotions, hoping to win financial security. The quest to win big prizes, according to consumer experts, is fueled by popular television shows such as HGTV's Dream Home giveaway, "Oprah's Big Give," "Extreme Makeover: Home Edition" and "Survivor" that offer up to a million in cash or million-dollar mansions.

Lottery officials reported higher ticket sales in some states, and radio stations have no shortage of offers from people willing to do silly things like riding a roller coaster for eight hours or eating a cockroach to win a prize.

"People will do all kinds of things for a car or concert tickets," said Mike Moshure, assistant promotions director for radio station WSTR, which sponsored the car giveaway that drew 250 entries. "We had someone volunteer to run naked down Peachtree Street, but that was illegal so we didn't do it."

Some promotions can be dangerous. A 28-year-old Sacramento woman died last year after drinking water continuously without going to the bathroom during a radio contest on station KDND. The prize: a Nintendo Wii

game system.

"More than ever people are looking for the magic fix, pennies from heaven," said Kit Yarrow, a consumer psychologist at Golden Gate University in San Francisco. "And they are more susceptible to free claims when money is tight."

The problem with big winnings, financial experts say, is that the value of houses, cars and other items counts as income. So at tax time, Uncle Sam wants his share.

"When people win big prizes, it is really in some ways setting them up for financial failure," said money coach Lynette Khalfani-Cox. "They, like 9 out of 10 Americans, have not been taught how to manage money well."

While horror stories about lottery winners are common, Khalfani-Cox said the problem is wider. About 70 percent of people who come into sudden wealth end up blowing the money, she said, whether from insurance settlements, divorces, job bonuses, inheritances or tax refunds.

For some, winning a dream home turned into a nightmare.

As television cameras rolled, nearly 2,000 people, including the mayor of Lake City, Ga., volunteered a week in 2005 to help build Milton and Patricia Harper's new 5,300-square-foot suburban Atlanta mansion for the ABC show "Extreme Makeover: Home Edition."

The house — complete with four bedrooms, four fireplaces, a solarium and a music room — had been scheduled to be auctioned off on Monday after falling into foreclosure, but the owners worked out a deal with the bank allowing the family to sell it. The Harpers, who were chosen from more than 15,000 applicants, used the house as collateral for a \$450,000 loan that reportedly was used to start a construction company that failed.

Though the prize included \$250,000, enough to pay taxes on the house for 25 years and set up a scholarship fund for their three children, the home landed in foreclosure after the loan was defaulted, according to court records.

Don Cruz, a suburban Chicago man, won a \$2.2 million dream home in the HGTV sweepstakes in 2005, only to have to auction it off earlier this year because he could not pay the taxes.

Cruz, 43, said he used the house as collateral for a \$1 million loan that he used to pay the IRS \$680,000 and to cover the cost of brain surgery for his 40-year-old wife, Shelly. After selling the house for \$1.3 million in January, Cruz said, he barely broke even.

"It was like we were on vacation for three years," Cruz said of the family's time living in the Tyler, Texas, home. "It was a gift from God, but we never thought of the taxes until we heard from the IRS. We thought it was a free house."

Now the family is back in its old two-bedroom, 780-square-foot house in Batavia, where Cruz, a former carpenter, is a stay-at-home dad and his wife works as an administrative assistant. It seems a world away, Cruz said, from the mansion left behind with its lakefront boathouse, indoor elevators, and vast great room with 30-foot ceilings and a 6-foot-wide fireplace.

The amount of taxes depends on one's income bracket, but a rule of thumb, according to Sandra Grauschopf, the guide to contests at About.com, is the tax bill will be about 30 percent of the winnings. In the case of a house, she said, the best thing to do is sell it.

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