

Prize-Linked Savings FAQs

What Are Prize-Linked Savings Programs?

Prize-linked savings programs were launched at scale in the U.S. in 2009 by a group of eight Michigan credit unions. These credit unions incentivized their members to save more regularly by offering raffle prizes tied to a unique savings account. This savings promotion program was called “Save to Win.” Through this program, for every \$25 put into a special savings account, the member received a chance to win prizes through a raffle. While the member’s money is still safe in their account and accruing interest, the participant also has a chance to win monthly prizes or the grand prize. Everyone who saves maintains their deposits, plus whatever interest they accrue, whether or not they win additional prizes.

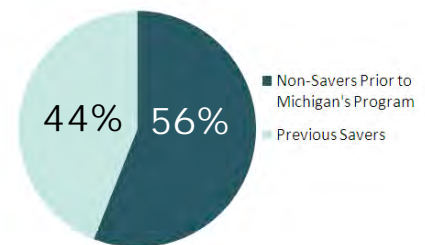
Where did the Idea for this savings promotion raffle originate?

This basic insight about the power of incentives is not new. For centuries, financiers have known lotteries and raffles are a useful tool to raise capital for everything from private ventures to public works to renowned universities. More recently, the element of chance and an opportunity to win prizes have helped make prize-linked savings (PLS) products successful in countries around the globe. The Premium Bonds program in the United Kingdom, for instance, has a fifty-year history of helping Britons save. With well over 20 million people holding more than 25 billion pounds worth of Premium Bonds, the program is an established institution. A similar story can be told about PLS products in other countries from Sweden to the United Arab Emirates. A real test in the US was brought about when Peter Tufano, *Harvard Business* began to conduct research on the concept and worked with the Doorways to Dreams Fund, the Filene Research Institute, and the Michigan Credit Union League to launch a full-scale demonstration.

Are Prize-Linked Savings Programs Proven to Encourage Saving?

Yes. The “Save to Win” program was very successful in helping Michigan residents learn the habit of savings. The Michigan program encouraged residents that were classified as “non-savers” to open their first savings account—specifically, 56 percent of the Michigan participants in the program were non-savers prior to the program. Additionally, research conducted by Harvard has shown the success of PLS programs throughout the world.

Michigan “Save to Win” Program		
	2009* (8 Credit Unions)	2010* (36 Credit Unions)
Accounts	11,666	16,833
Amount Saved	\$8.56 million	\$28.1 million
Average Account Balance	\$734	\$1,673



*Source: Doorways to Dreams, 2010

Program Helps the Financially Vulnerable

The Michigan program successfully attracted non-savers, the asset poor, and low-to-moderate income groups to open accounts and also made a positive impact on their savings behavior.

Michigan “Save to Win” Program (as of December 2009)			
	# of Active Accounts*	Total Saved*	Avg. Account Balance*
Non-Savers (56%)	2,824	\$1,660,897	\$588
Asset Poor (39%) <i>Non-home assets <\$5,000</i>	1,849	\$721,227	\$390
LMI (44%) <i>Household income <\$40,000</i>	2,162	\$1,370,471	\$634

*Source: Doorways to Dreams, 2010

Why Are Prize-Linked Savings Programs Needed?

The time is right for America to encourage more focus on savings habits, both to shore up household finances and to strengthen the nation's economy as a whole. Prize-linked savings programs could help motivate residents to save regularly and become more financially secure. National statistics have shown a decrease in savings habits among Americans—this tool, which requires no public subsidies or taxpayer expense, could help more residents build a stronger fiscal foundation. Rhode Island, Maine and Maryland have passed legislation to enable these programs and Washington, Nebraska, Iowa, and New Mexico have pending legislation.

What are the requirements for an individual to open a prize linked savings account?

In most cases, the only requirement to open a PLS account is for someone to deposit a specific amount of money. That money is their money to keep (similar to any other savings account), earns interest, and earns the saver a chance to win additional prizes on top of their savings.

What type of tax is placed on the winnings?

All winnings are taxed according to appropriate state and federal tax laws. Winnings are reported by the financial institution as income to the saver-winner.

How often is a prize awarded?

The number and size of prizes can vary depending on the PLS product and the set of financial institutions offering the product. In Michigan, the 36 credit unions participating offer monthly prizes to savers and a large grand prize once a year.

How are the winners chosen?

Winners are chosen entirely at random, similar to any other raffle experience. Savers earn chances to win by continuing to deposit throughout the year. The more they save, the more chances they have to win.

How many financial institutions are needed to sustain and provide this product?

There is no magic number for how many credit unions are needed to make the product sustainable. During the first year of the demonstration in Michigan (2009), there were eight credit unions participating. In 2010, the number increased to 36 credit unions. In 2011, the Michigan Credit Union League expects over 50 to participate.

Who is the Doorways to Dreams Fund?

The Doorways to Dreams Fund (D2D) is a 501 c 3 non-profit with the mission to increase economic security for low-income Americans. Funding comes from a variety of private philanthropic and some federal government grants. The first year of Save to Win in Michigan was funded through a combination of funds from a grant from the Center for Financial Services Innovation, the Michigan Credit Union League, and the participating credit unions themselves. Currently, D2D does not fund any of the operations or prize-pool, but D2D remains engaged through continued research and innovations of the promotion.