A brief from THE PEW CHARITABLE TRUSTS | Nov 2018

Can Contests Help Fill Americans' Savings Gap?

Access to and adoption of prize-linked programs in the United States

Overview

When it comes to saving money, the status quo is not working for American families. Most bank customers have access to traditional savings accounts, but in surveys conducted by The Pew Charitable Trusts, 80 percent reported having less in those accounts than they think they should.

And why are so many people saving so little? Research by Pew and others has identified a key factor: The design and operation of most savings products are a poor fit for consumers.[1] Given that finding—and the overall low level of savings among U.S. households—financial institutions, nonprofit organizations, and academics have been exploring how those products could be redesigned to make them more effective, particularly for consumers who are saving very little.

One innovation to emerge from these efforts is prize-linked savings (PLS) programs in which entries into raffle-style drawings are offered to encourage consumers to make regular deposits and accumulate savings. Participants who do not win a prize still have the money they deposited, sometimes with earned interest. Proponents suggest that these products enhance the fun and desirability of putting money aside and could entice those not otherwise inclined to save.[2]

State and federal regulatory barriers have limited the creation of PLS products. However, some states have authorized their use in recent years, and one program, Save to Win (STW), launched in Michigan as a pilot in

2009 and expanded to Nebraska, North Carolina, and Washington in 2013. Although most PLS activity has occurred via Save to Win, other such programs have been introduced in recent years, including WINcentive (WIN), which is operated by credit unions in Minnesota.

This study uses data from the STW and WIN programs—provided by Commonwealth, a national nonprofit that promotes PLS in the United States, and two Minnesota credit unions, respectively—to examine how financial institutions and consumers use PLS-style products.

Key findings show that adoption of these two products by financial institutions and consumers must be expanded if they are to have a broad impact on household savings:

- **26 states allow at least some financial institutions to offer PLS-style products.** Unless states enact authorizing legislation and create the necessary regulatory guidance, banks and credit unions cannot offer these products, which limits the programs' reach and potential impact. Most states have not taken steps to enable PLS.
- **17 percent of Michigan credit union members had access to STW in 2013, the program's fourth year of operation in the state.** Michigan had early authorizing legislation, but most credit union customers in the state banked with institutions that did not offer PLS. Authorizing legislation is necessary but not sufficient to bring PLS to consumers; financial institutions must also participate.
- **1.3 percent of members at the typical Michigan credit union that offered STW opened an account, and WIN account takeup rates were similar at the two Minnesota credit unions studied.** Even when credit unions in these states offered a PLS product, virtually all customers chose not to enroll. Broad impact from these products is contingent upon them being attractive to and used by customers.
- **Consumers who opened PLS-style accounts saved in them, and those in Minnesota generally saved more during the study period than did similar customers who did not enroll.** In Michigan, the median STW participant accumulated no more than $326 in the account. In Minnesota, the median WIN user's total deposits across all their accounts at the credit union—including checking, savings, and PLS—increased substantially over a year, while the median customer without WIN stayed at the same balance. These findings suggest that customers generally use PLS products in financially healthy ways but do not necessarily indicate that the programs lead to greater savings.

PLS programs in the U.S. and abroad

Traditional savings accounts pay interest on deposits to encourage customers to save for a rainy day or large purchase. Prize-linked accounts work differently, offering the chance to win cash prizes as the primary incentive for saving, although some also accrue interest. Among PLS programs, however, the product's terms of use—such as minimum balance requirements and constraints on withdrawing money, the type and size of prizes, and the amount of savings required for a contest entry—can differ. Proponents argue that these programs have the potential to increase savings among individuals across the income and wealth distribution by making saving more fun and rewarding.

PLS products have been offered for decades in more than 20 countries, including the United Kingdom, Sweden, and South Africa,[3] but they were not available in the United States until recently, because federal and many state regulations had long prohibited lottery or raffle-type financial products.[4] Although several states, notably Michigan, allowed credit unions to operate PLS programs, financial institutions that also did business in other states or under a federal charter could not participate. In those states, the legal status of the model was unclear in the absence of a statute affirmatively allowing or prohibiting PLS.

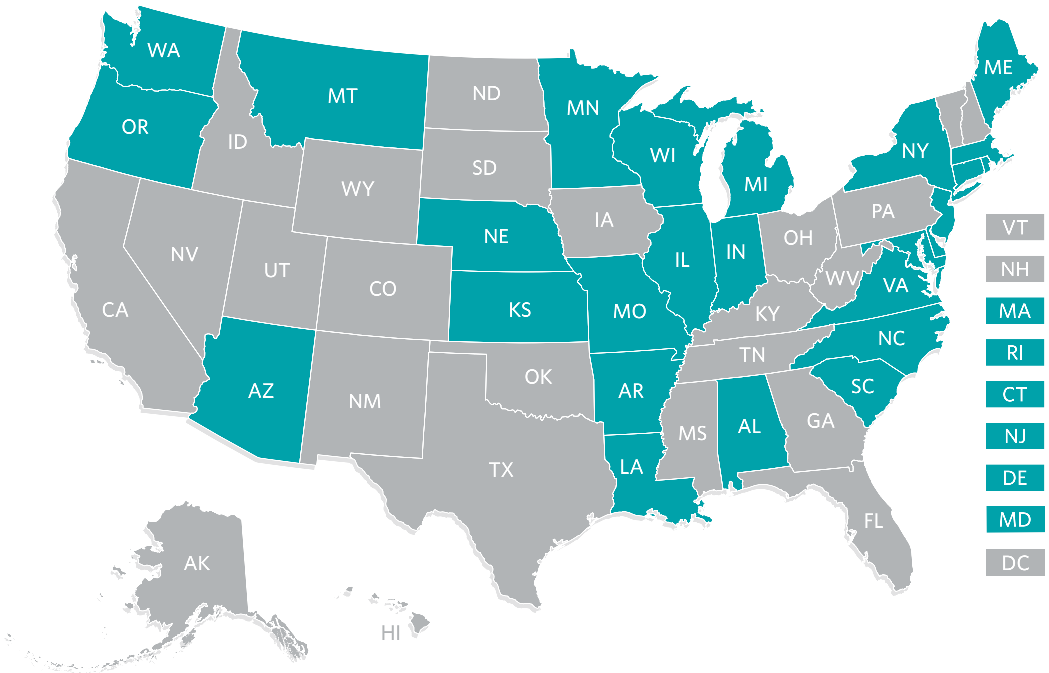
In December 2014, Congress passed the American Savings Promotion Act, removing the restriction that prevented federally chartered banks from offering PLS products. States still had to take legislative action to legalize the products, but the federal law eliminated a key regulatory barrier to PLS in the U.S. Seven states passed enabling legislation in 2016, bringing to 26 the number of states where PLS was legal as of 2018.[5] (See Figure 1.) In fall 2017, voters in Texas approved a proposition allowing prize-linked savings with 60 percent support, and more states are considering authorizing it.[6] This patchwork of state regulations creates complexity for financial institutions that operate in multiple jurisdictions, requiring them to offer different savings products from state to state.

Importantly, however, authorization does not necessarily result in availability. Not all 26 states that allow PLS have active programs, mainly because financial institutions still must embrace the model and develop products. In some states, a small number of financial institutions have offered pilot products or time-limited programs, which complicates efforts to ascertain how many states have operating programs.

Figure 1

26 States Allow PLS Products

Where some or all financial institutions can offer prize-linked savings



Source: Prosperity Now, "Prosperity Now Scorecard" (2018), https://scorecard.prosperitynow.org, accessed Sept. 11, 2018

The first broadly available PLS offering in the United States was the Save to Win program, which Commonwealth, the Filene Research Institute, and the Michigan Credit Union League developed for use by Michigan credit unions.[7] The program operated as a pilot in 2009 and became a regular offering in 2010. In 2012 and 2013, STW expanded to credit unions in Nebraska, North Carolina, and Washington.

To open an STW account, members of participating credit unions must make a $25 initial minimum deposit; thereafter, every $25 deposited in a month, up to $250, earns members an entry into monthly, quarterly, and annual prize drawings at the credit union, state, and national levels. Prizes range from $25 for monthly drawings to as much as $10,000 for the annual grand prize.[8] Some credit unions also pay monthly interest on the account balances.

STW remains the most widely available PLS product in the U.S., but individual financial institutions and groups of credit unions have developed alternatives in recent years. For instance, credit unions in Minnesota developed and launched the WIN program in 2016.[9] Although the rules vary, the underlying model—lottery drawings for cash prizes to encourage deposits—remains the same.

STW participation by U.S. financial institutions

Consumers can enroll in a PLS program only if their banks or credit unions offer one. To better understand how financial institutions responded to the expansion of authorizing laws and what that meant for consumers, this analysis examined the share of credit union members in the four Save to Win states that banked with participating credit unions between 2010 and 2013.[10] This metric captures the spread of a program across a state's credit union membership regardless of variation in asset holdings or geographic reach.

When STW began in Michigan in 2009, consumers and financial institutions knew virtually nothing about the prize-linked model. Nevertheless, adoption tripled from 18 credit unions in 2010 to 58 in 2012; over the three years covered by the data, 59 credit unions in the state offered the program for at least a year. However, in 2013, STW, which was originally funded by Michigan's credit union league, began charging credit unions for access to the program to offset administrative costs. After that change, participation declined to 38 of the 281 credit unions chartered in the state that year (14 percent),[11] accounting for about 17 percent of Michigan credit union members. (See Table 1.)

In 2012 and 2013, Save to Win expanded to credit unions in Nebraska, North Carolina, and Washington, with varying levels of first-year adoption. STW was offered by 11 credit unions in Nebraska, representing 48 percent of the state's credit union members; seven in North Carolina (4 percent); and six in Washington (7 percent). Overall, a minority of credit union customers in these states had the opportunity to open STW accounts between 2010 and 2013 because most credit unions did not participate in the program.

Table 1

Most Consumers in States Allowing STW Did Not Bank at Participating Institutions

Program market penetration, 2013

	Michigan	Nebraska	North Carolina	Washington
Credit unions offering Save to Win	38	11	7	6
Share of state credit union membership	17%	48%	4%	7%

Sources: Pew analysis of STW data (http://www.savetowin.org) and National Credit Union Association call reports

Consumer enrollment in PLS

Institutional participation is only the first step necessary for consumers to benefit from prize-linked savings products. Customers also must choose to open these accounts. The data used for this analysis show that from 2010 to 2013, less than 2 percent of members at the typical participating credit union opened Save to Win accounts. The rate of enrollment in WIN at the two Minnesota credit unions studied was similar.

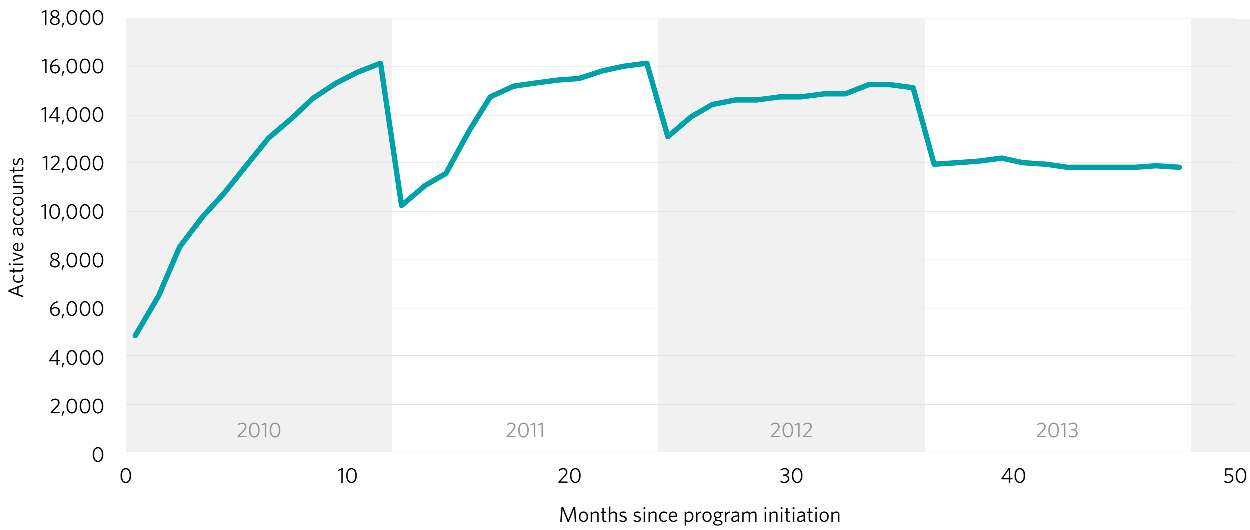
STW in Michigan

Between 2010 and 2013, Michigan credit union members opened more than 37,000 STW accounts. For most of that period, however, the number of active accounts was around 15,000. (See Figure 2.) STW enrollment grew most rapidly in 2010, with most people retaining their accounts at the end of that year, but growth in new accounts slowed in late 2011 and 2012.[12] The number of active accounts then dropped substantially from 2012 to 2013, and few customers opened new accounts in 2013.

Figure 2

Consumer Enrollment in Michigan Rose Rapidly in First Year, Then Flattened

Active Save to Win accounts, 2010-13



Note: From 2012 to 2013, 20 credit unions discontinued Save to Win; two-thirds of those that continued the program saw the number of accounts decline.

Source: Pew analysis of STW data from Michigan

The sharp decrease in consumer takeup occurred in part because 20 credit unions in Michigan stopped offering the program. Nevertheless, two-thirds of credit unions that offered STW in 2012 and 2013 had fewer enrolled accounts in 2013 than in 2012, and the overall number of active accounts declined in both years. By 2013, Michigan's STW program had only about 12,000 active accounts, and enrollment at participating credit unions ranged from 0.1 to 7.9 percent of members, with a median of 1.3 percent. Whether this level of enrollment would hold for a PLS product offered by different institutions, attached to other products, or with alternative marketing is unclear; but if it did, it would limit PLS' overall impact on Americans' savings shortfall.[13]

WIN in Minnesota

In 2015, after the Minnesota Legislature passed a bill enabling credit unions to offer PLS accounts, credit unions in the state, in partnership with Commonwealth, developed the WINcentive program with rules that were broadly similar to those for Save to Win.[14] Enrolled members earned prize drawing entries for each $25 month-over-month balance increase, up to four entries a month, and the program awarded prizes through monthly, quarterly, and annual drawings. In 2016, the first year of operation, 20 credit unions offered WIN.

The Minnesota experience provides additional insight for this analysis because the program had a similar enrollment rate as STW in Michigan (between 1 and 2 percent at both Minnesota credit unions studied) and made data available on the characteristics of those who did and did not open PLS accounts. Openers and non-openers provided similar responses to questions about their financial circumstances, but they differed substantially in characteristics measured by administrative data.

In a survey conducted before WIN was introduced, respondents who later chose to open accounts were comparable to those who did not in terms of annual household income, financial well-being, financial capability, perceptions of financial security, and whether they reported having savings.[15] However, administrative data show that before PLS accounts became available, customers who ultimately enrolled had more money in checking and savings accounts than those who did not: WIN account holders at both credit unions were in the top half of depositors before the program launched, and at one credit union the median enrollee had three times as much money as the median member who did not open an account.

Consumer savings behavior via PLS

PLS users in Michigan and Minnesota generally accumulated savings in their enrolled accounts, and those balances had the potential to meaningfully improve household financial stability. However, while Michigan's STW data do not include individual account holders' financial circumstances and can therefore be evaluated only in the context of broad national household savings research, the data from Minnesota show growth in the overall balance levels of WIN account openers compared with non-openers.

STW in Michigan

In Michigan, people who opened STW accounts made regular deposits and accumulated savings. Over the four years studied, they averaged more than four prize-eligible deposits each calendar year of generally high amounts, with a median of $100. (See Table 2.) Changes in the prize structure and program rules over the period do not appear to have negatively affected account holders' savings patterns as median deposit amounts were similar across the years studied.[16]

Table 2

STW Users Typically Made Large Deposits

Monthly contributions in Michigan, excluding nondeposit months, by year

	2010	2011	2012	2013
Median deposit	$81	$100	$100	$100
Mean deposit	$407	$175	$591	$474

Source: Pew analysis of Michigan Save to Win data

The regular deposits STW users made accumulated into observable savings. The median enrollee's program account balance reached $326 over the life of the account, although maximum balances varied widely: A quarter of account holders never had more than $60, while another quarter saved over $1,300. Importantly, whether these balances were new savings or savings shifted from another product is unknown. If they were new, the additional $326 would have boosted the median 2014 household—which previous Pew research found had $3,000 in savings—from the 50th to the 52nd percentile of liquid savings nationally. An additional $1,300 would have raised the same family to the 55th percentile.[17]

The program rules give an enrollee a raffle entry for each $25 saved in the account, and people can earn up to 10 entries a month. In other words, STW encourages up to $3,000 in savings a year with prize entries. A small group of Michigan STW enrollees—about 1 in 10—saved far more, sometimes accumulating tens or even hundreds of thousands of dollars, and their balances dramatically increase the average savings amount in the program. The average end-of-month balance for these accounts was $11,000 to $15,000 during the years studied, compared with less than $500 for enrollees who never saved more than the program incentivized. While this small set of accounts skews calculations of total money saved in STW accounts, these results do not reflect plausible program impacts on typical savers.

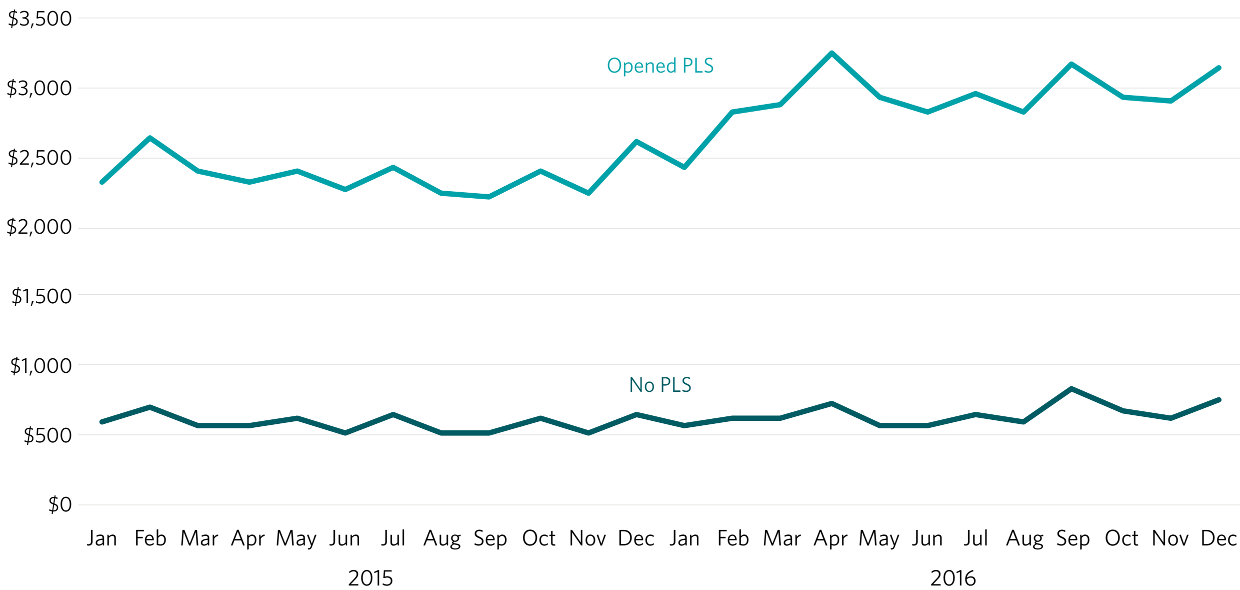
WIN in Minnesota

WINcentive enrollees at the two credit unions studied also appear to have actively used their accounts and increased their savings. Minnesota credit union members who opened WIN accounts tended to have higher savings before WIN than those who did not enroll. (See Figure 3.)

Figure 3

Minnesota WIN Users Had More Money in Their Accounts Than Did Nonenrollees

Median end-of-month balances at one credit union, by enrollment



Note: WINcentive accounts became available in January 2016.

Source: Pew analysis of anonymized administrative account data from a large Minnesota credit union

The data show that during 2016, the median user's overall savings across accounts at the credit union increased by $381 while the median customer who did not open a WIN account had about the same total savings at the end of the year. (See Table 3.)

Table 3

Minnesota's WIN Enrollees Saved More Than Nonenrollees

Account holders vs. nonholders at one credit union, 2015-16

	Enrollees	Nonenrollees
Number	2,222	163,772
Median total balance (December 2015)	$2,599	$807
Median total balance (December 2016)	$3,314	$799
Median change in total balance (December 2015-December 2016)	$381	$1
Median percentage change (December 2015-December 2016)	20.3%	0.1%

Note: The figures do not add up because they are medians.

Source: Pew analysis of anonymized administrative account data from a large Minnesota credit union

The findings from Michigan and Minnesota suggest that people who open PLS accounts are likely to save money in them. However, the data do not indicate whether those savings are driven by the specific features of the account or if the account holder would have saved the money anyway. Further research is needed to understand if and how PLS models encourage savings behavior.

Conclusion

The data from Save to Win in Michigan and WINcentive in Minnesota suggest that adoption of prize-linked savings by financial institutions and consumers is a barrier that these products must overcome to have a positive impact on household financial well-being at a national scale. The PLS model is more prevalent in the United States than ever, and this analysis found that consumers who open PLS accounts use them as intended and generally saved more than comparable consumers who did not enroll.

This analysis found moderate growth in the number of states with authorizing legislation, participation by financial institutions, and enrollment by consumers. But in many states with laws enabling PLS, banks and credit unions still have not embraced the model, limiting customer access. One factor may be that the patchwork of state and federal regulation hampers larger financial institutions that operate in multiple states. In the states studied where PLS is permitted for credit unions, most of these institutions have not offered a prize-linked product to their customers. Finally, consumer enrollment hovered below 2 percent for most of the study period, limiting the products' reach and potent impact on family financial well-being.

Novel financial products that can serve as benchmarks for consumer takeup of PLS in Michigan and Minnesota are scarce, and whether 1.3 percent average enrollment lags, meets, or exceeds the expectations of participating states and financial institutions is unclear. What is certain, however, is that customer takeup rates for STW and WIN, as well as the credit union adoption rate for STW, constrained the potential benefits for households in those states. The data clearly show that people who open the accounts use them to accumulate hundreds of dollars in savings on average, though further investigation is needed to understand if that is a product of access to the account or of the financial tendencies of consumers who choose to enroll.

American households face myriad challenges navigating their financial lives. Although PLS might one day be a part of the toolkit that families use to build and sustain financial wellness, at current levels of adoption by institutions and consumers, prize-linked saving products can have only a limited salience and impact.

External reviewers

The report benefited from the insights and expertise of Jeremie Greer of Prosperity Now and Jeremy Burke of the University of Southern California's Dornsife Center for Economic and Social Research. Although they reviewed the report's findings, neither they nor their organizations necessarily endorse its conclusions.

Acknowledgments

Pew's financial security and mobility team thanks Commonwealth and two Minnesota credit unions for providing access to administrative data and facilitating the delivery of surveys to credit union members. We also thank Esther Rege Berg, Jennifer V. Doctors, Michelle Harris, Molly Mathews, Cindy Murphy-Tofig, and Liz Visser for their thoughtful suggestions and production assistance. Many thanks also to other current and former colleagues, especially Erin Currier, who made this work possible.

Endnotes

1 Clinton Key and Katy Davis, "Americans Need an Environment That Supports Building Financial Security," *The Hill*, Oct. 13, 2017, http://thehill.com/opinion/finance/355299-americans-need-an-environment-that-supports-building-financial-security.

2 Shankar Vedantam, "'Save to Win' Makes Saving as Much Fun as Gambling," NPR, Jan. 6, 2014, https://www.npr.org/2014/01/06/260119038/save-to-win-makes-saving-as-much-fun-as-gambling.

3 Peter Tufano, Nick Maynard, and Jan-Emmanuel De Neve, "Consumer Demand for Prize-Linked Savings: A Preliminary Analysis," Harvard Business School (2008), http://hbswk.hbs.edu/item/5867.html.

4 PLS bond programs were a funding mechanism for major U.S. infrastructure projects in the late 1800s. Allegations of fraud in the operations of these programs led to state and federal prohibitions against the model.

5 Prosperity Now, "Prosperity Now Scorecard" (2018), http://scorecard.prosperitynow.org/data-by-issue#finance/policy/prize-linked-savings.

6 Office of the Texas Secretary of State, "2017 Constitutional Amendment Election," accessed June 26, 2018, http://elections.sos.state.tx.us/elchist320_state.htm.

7 Save to Win, "History of Save to Win," accessed June 1, 2018, http://www.savetowin.org/product-info/history-of-save-to-win.

8 In 2010 and 2011, the annual grand prize was $100,000. That was changed to smaller, more frequent prizes.

9 Minnesota Credit Union Network, "About Wincentive," accessed Sept. 4, 2018, https://www.mncun.org/mpage/About.

10 These analyses focus on credit union customers because banks could not offer PLS products during the study period. Credit unions provide account services to far fewer U.S. households than banks do.

11 Because the account data run through 2013, the analysis focused on that period. At the time of publication, 32 credit unions in Michigan offered STW: Save to Win, "Participating Credit Unions: Michigan Save to Win," accessed Sept. 4, 2018, http://www.savetowin.org/participating-credit-unions-michigan?showres=allcus.

12 In the early years of STW, accounts were liquidated at the end of each year, and holders could choose to open a new account the next year with the liquidated funds.

13 In 2017, Walmart and prepaid card provider Green Dot began offering a PLS option on some prepaid cards. In addition, some banks have begun to market PLS products.

14 Minnesota H.F. 1127, https://www.revisor.mn.gov/bills/bill.php?f=HF1127&b=house&y=2015&ssn=0.

15 In support of its investigation of PLS programs, Pew sponsored and conducted a survey of the members of two Minnesota-based credit unions that offered the WINcentive account. The credit unions emailed survey invitations to a census of members for whom they had a valid email address; customers without a valid email address on file were excluded. The survey was web-based and delivered via the Qualtrics platform. Customers who did not respond after one week received a reminder email from the credit union. No incentives were offered for participation. The first wave of the survey was fielded Feb. 17-March 20, 2015. At the larger of the two credit unions, 6,385 members, or 4 percent, completed the survey. The second credit union yielded 989 completed surveys, or less than 2 percent. Survey data from the second credit union are not presented in this report because of the low response rate. A follow-up survey was administered at both credit unions using the same procedure (email invitations to all customers who had been invited to take the baseline survey). After one week, those who had not responded were sent a reminder email. At the larger of the two credit unions, the survey was in the field June 15-July 12, 2016. In total, 3,523 respondents completed the survey, or 2 percent. Because of very low overlap between follow-up survey respondents and those who opened a WIN account, follow-up data did not sustain the planned analysis and are not presented in this report. Full topline data from the baseline survey are available at http://pewtrusts.org/-/media/assets/2018/11/minnesota-prize-linked-savings-baseline-survey-toplines.pdf.

16 The prize structure changed over the four years, shifting from a few large monthly awards to several smaller ones. The annual grand prize also evolved from one $100,000 award in 2010 to multiple $10,000 prizes in 2012 and 2013.

17 The median household savings figure comes from Pew's Survey of American Family Finances and reflects nationally representative data reported in prior Pew work: The Pew Charitable Trusts, "What Resources Do Families Have for Financial Emergencies?" (2015), http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/11/emergency-savings-what-resources-do-families-have-for-financial-emergencies. There is no consensus in the field about how much a household should have in savings or the material benefit of holding a given amount of additional savings.

For further information, please visit:

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