

PRIZE-LINKED SAVINGS:

The **Save to Win** Project



ACKNOWLEDGEMENTS

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THE SAVE TO WIN PROJECT

Savings is essential to the American dream, both for individuals hoping to attain it and for the country as a whole to recover and rebuild a strong economy. For most of the last two decades, Americans have borrowed more than they have saved. Despite recent upticks in savings, the gap between debt and savings is alarming. It is also not yet clear if lower wage-earners are participating in the recent increase in savings rates.

Perhaps Americans' lack of interest in saving over the past two decades should not come as a surprise. After all, spending and borrowing money is often fun, and generally provides consumers with new tangible goods or helpful services. At the same time, spending and borrowing is encouraged by billions of dollars in sophisticated advertising and marketing. By contrast, saving is at best unexciting, and, at worst, perceived as an act of self denial.

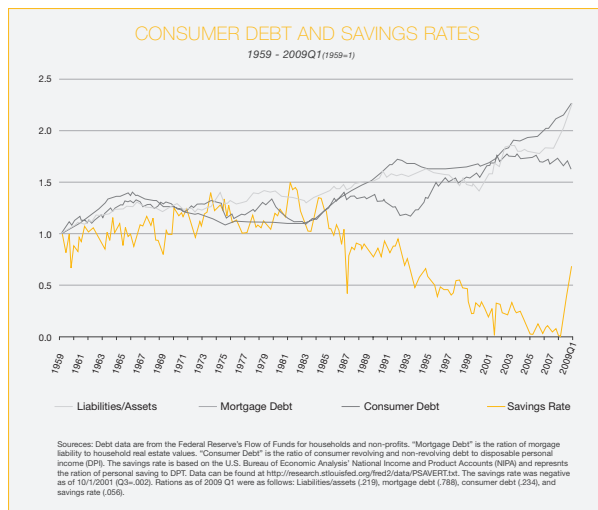
Is there a way to give saving some of the excitement, fun and sizzle that most people associate with spending?



Monthly prize - winner from Communicating Arts Credit Union

MAKING SAVING FUN

We know that Americans love a chance to win something. In 2007, for instance, sales of the nation's 42 state lotteries approached \$54 billion, an average of over \$189 per capita or \$479 per household.¹ Of note, some estimates suggest over 80% of lottery revenue comes from households making less than \$50,000 per year, the very households that often have the most difficult time saving.² The Save to Win project was organized to discover whether linking a chance to win something with regular saving behavior could embed some excitement into the act of saving.



¹ Sources: North American Association of State and Provincial Lotteries (<http://www.naspl.org/index.cfm?fuseaction=content&PageID=41&PageCategory=38>) and the U.S. Census Bureau (<http://www.census.gov/population/www/pop-profile/profiledynamic.html>)

² Source: Tufano, Maynard and De Neve, Consumer Demand for Prize-Linked Savings. Working paper, 2008. Available at <http://www.hbs.edu/research/facpubs/workingpapers/papers0708.html#wp08-061>

TESTING THE THEORY

Beginning in 2008, Doorways to Dreams (D2D), the Filene Research Institute and the Michigan Credit Union League began planning a test of a financial product new to the United States, a prize-linked savings (PLS) account. Based on the success of similar products in 19 countries around the world, D2D and its partners believed a PLS offering could help jumpstart saving, especially for people who are unlikely to save successfully via traditional means. From this thinking emerged Save to Win, a PLS product offered by Michigan credit unions starting in January, 2009. **During the first 32 weeks of Save to Win, eight credit unions have helped over 10,000 Michigan residents open a Save to Win account and save, on average, over \$140,000 per week.** In terms of the rate of savings accumulation and the cost of delivery, this early success compares favorably to other efforts to foster new savers and new savings, such as Individual Development Account (IDA) matched savings programs.¹

Like similar products around the world, Save to Win marries saving money and winning prizes: savers earn a return in the form of earnings on their savings, but also a chance to win prizes, both smaller monthly prizes and a life-changing \$100,000 jackpot. This same concept has spurred savers for decades in places as diverse as the United Kingdom, Sweden, South Africa, Latin America and Middle Eastern countries.

CREDIT UNIONS TAKE THE LEAD

Credit unions have been on the forefront of bringing prize-linked savings to the United States. Beginning in 2006 with Southern Indiana-based Centra Credit Union, a handful of credit unions have individually implemented some form of prize-linked savings on a modest scale. But as individual financial institutions, none has been able to generate enough PLS account deposits to support a grand prize jackpot of sufficient size to be attention-getting. And each PLS product effort has been structured as a sweepstakes rather than a true raffle, meaning that non-savers had to be offered an opportunity to enter any prize drawings.

The Save to Win project seeks to address these limitations by enabling several credit unions to join forces in order to offer a prize-linked savings product with a headline-grabbing grand prize, and to share in the costs of product development, marketing, legal, and ongoing administration. In addition, Save to Win was structured as a true raffle, with only those who save eligible to win prizes. With these elements in place, the project is attempting to answer questions like the following:

- **How would consumers respond to a PLS product offering?**
- **Do these products have the potential to impact which Americans save and how much?**

¹ For instance, over four years, 2,364 participants in the landmark American Dream Demonstration (ADD) IDA program accumulated \$1.25MM in savings (source: *Saving Performance in the American Dream Demonstration*, available at: <http://csd.wustl.edu/Publications/Documents/ADDReport2002.pdf>).

SAVE TO WIN: A MICHIGAN INNOVATION

Eight path-blazing Michigan credit unions are working to change the way Americans think about winning prizes and saving money by participating in the first

year of the Save to Win product offering. The pilot team consists of innovative Michigan CUs of various sizes and from different geographies:



Credit Union	Location	Assets	Members
Central Macomb Community CU	Clinton Township	\$119 million	17,371
Christian Financial CU	Roseville	\$237 million	34,518
Communicating Arts CU	Detroit	\$25 million	7,255
E&A CU	Port Huron	\$179 million	31,916
ELGA CU	Burton	\$264 million	38,513
Frankenthuth CU	Frankenmuth	\$189 million	21,384
NuUnion CU	Lansing	\$821 million	89,007
Option 1 CU	Grand Rapids	\$246 million	33,831

Together these credit unions serve most of the major population centers in the state of Michigan, though they are hardly a homogenous group. The individual institutions vary in size from 7,000 to 90,000 members and from \$25-820 million in assets. One (Communicating Arts Credit Union) is a low-income designated credit union serving some of the poorest neighborhoods in America, while others have substantial suburban membership. Yet despite their differences, each credit union has made essential contributions to the program's success.

Is it Legal? Yes. The Michigan Credit Union Act (see below) includes a provision allowing for a savings promotion raffle. This provision means that a general state prohibition on gambling does not apply to programs that meet the definition of a savings promotion raffle. In the case of Save to Win, every \$25 that a credit union member saves each month gives him or her one entry in a savings raffle. Outside of Michigan, financial institutions could offer a sweepstakes rather than a savings raffle. Sweepstakes have the drawback that institutions may not require consumers to open or save in a PLS account in order to enter drawings; the rules governing the sweepstakes must make clear how to enter without, for instance, making a purchase, opening an account or meeting other criteria (e.g., saving money).

Act 215 of 2003

490.411 Savings promotion raffle.

Sec. 411.

- (1) *If authorized by the credit union board, a domestic credit union may conduct a savings promotion raffle. The domestic credit union shall conduct a savings promotion raffle so that each token or ticket representing an entry in the raffle has an equal chance of being drawn. A domestic credit union shall not conduct a savings promotion raffle in a manner that jeopardizes the domestic credit union's safety and soundness or misleads its members.***
- (2) *Pursuant to his or her supervisory powers under article 2, the commissioner may examine the conduct of a savings promotion raffle. The commissioner may issue a cease and desist order for a violation of this section under article 2.***
- (3) *A domestic credit union shall maintain records sufficient to facilitate an audit of a savings promotion raffle.***
- (4) *As used in this section, "savings promotion raffle" means a raffle conducted by a domestic credit union where the sole consideration required for a chance of winning designated prizes is the deposit of at least a specified amount of money in a savings account or other savings program offered by the domestic credit union.***

SAVE TO WIN - THE PRODUCT

Save to Win presents credit union members with a win-win proposition. The product, which is built on a share certificate,¹ allows savers to maintain their principal and earn interest, while also earning chances to win prizes.

Saving. Members of participating credit unions must open a qualifying share certificate to enter the savings raffle. This certificate is a 12-month time deposit and requires only \$25 to open. Unlike a traditional CD, the Save to Win certificate has a low minimum opening deposit (\$25) and a balance building feature allowing unlimited deposits during the one-year term. Interest is paid; it varies by credit union, but in 2009, all offered between 1% and 1.5%. While deposits are unlimited, the number of entries in the raffle is capped by the savings raffle rules (see below). One withdrawal is allowed during the 12-month period, and standard certificate early-withdrawal fees apply.

Winning. While building principal and earning interest, certificate holders earn chances to win monthly prizes and the grand prize. A member can earn up to 10 entries a month (which requires deposits totaling at least \$250) for both the monthly prize and the grand prize. Monthly prizes range in value from \$15 to \$400, and the number of prizes varies by month. The grand prize of \$100,000 will be awarded for the first time in January 2010.

To maintain eligibility for prizes, an account holder must:

- Hold a qualifying Save to Win share certificate as outlined above
- Be a member in good standing, with a traditional share savings account
- Be 18 years old or older
- Be a resident of the state of Michigan

The official Save to Win rules are available at www.michigansavingraffle.org.

COLLABORATION

Strong collaboration among credit unions both during the pre-launch period and since launch has been essential to the success of Save to Win. To gain efficiencies of scale and allow for shared infrastructure (for raffle administration and program evaluation research, for instance), participating credit unions agreed to common standards in a number of areas:

- **Product construct – product features and operations**
- **Legal and regulatory – savings raffle law interpretation and customer disclosures**
- **Sales and service plan – product sales/service approach to selling the product in member centers and fielding customer inquiries**
- **Training – content of training for front-line staff and backroom operators**
- **Marketing plan – marketing approach to existing and new members**

In many cases, the credit unions created working teams to share resources and expertise in order to resolve key IT, legal, and marketing questions.

A crucial advantage of collaboration is the economic aspect. Each participating credit union contributed a per capita share of the \$100,000 grand prize. This allowed for the benefit of an attractive headline prize without any single organization having to bear the full cost.

¹ Share Certificates are like Certificates of Deposit (CDs) offered by banks and thrifts.

In the spirit of collaboration and scale efficiency, Save to Win has one uniform marketing campaign used by all participating credit unions. During 2009, marketing has been member-focused, employing collateral pieces such as:

- Posters for teller windows
- Large posters for other branch areas
- Brochures and take-ones for branch lobbies
- Statement stuffers for quarterly mailings
- Web banners and other web site content
- An official rules web site, www.michigansavingsraffle.org
- Life-size lobby cut-outs of a young woman who appears in most Save to Win collateral

An example of Save to Win collateral. Source: Save to Win project

**SAVINGS BARELY
SCRATCHING THE SURFACE?**

**\$100,000
GRAND PRIZE**

**TIME TO
SAVE TO WIN**

EVERY \$25 DEPOSIT INTO THIS CERTIFICATE IS ANOTHER CHANCE TO WIN!

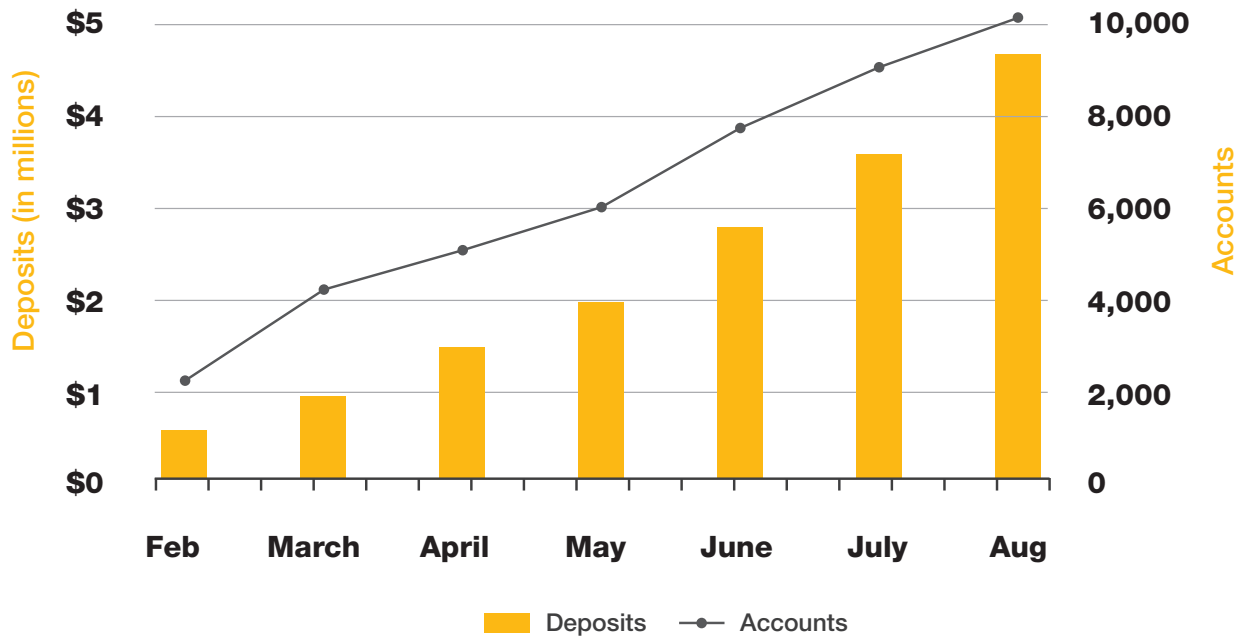
**IT'S A WIN-WIN
SITUATION!**

SPEAK WITH A MEMBER REPRESENTATIVE FOR DETAILS.
RAFFLE OPEN ONLY TO MICHIGAN RESIDENTS. VOID WHERE PROHIBITED BY LAW. OFFICIAL RULES AVAILABLE AT: WWW.MICHIGANSVINGSRAFFLE.ORG

More recently, project collaboration took the form of a **co-opetition** among the 8 participating credit unions. This friendly competition focused on which credit union could open the most Save to Win certificates between Memorial Day and Independence Day. Each week the credit unions received progress updates, fueling a sense of competition. In six weeks new certificates grew by 42%, representing 2,471 new Save to Win savers. Christian Financial Credit Union (CFCU) opened 648 accounts and took top honors, receiving both the respect of its peers and a trophy.

Save to Win Deposit and Account Growth since Launch.

Source: D2D Fund.



SAVE TO WIN -- THE RESULTS

Save to Win has revealed clear demand for prize-linked savings products. **Since launching in January, the participating credit unions have opened over 10,000 certificates and generated over \$4.67 million in savings.** Penetration among each credit union's membership varies from 1.4% to 13.9%; interestingly, some of the smallest credit unions (Communicating Arts and Central Macomb) achieved the highest rates of member penetration. Total deposits per institution range from \$182,000 to over \$980,000, and Christian Financial and Option 1 are on target to exceed \$1 million in deposits shortly.

Since launch, both deposit and certificate growth have been strong. Through the end of August, Save to Win account holders have saved, on average, over \$140,000 per week. In the process, 330 account holders have won over \$22,000 in monthly prizes. Given the up front investment required to launch a prize-linked savings product, in particular the pledge of a grand prize, rapid growth and getting the product to scale quickly are important for project economics.

	Membership (12/31/2008)	Number of Certificates	% Take-Up	Total Deposits	Average Deposit Per Certificate
Central Macomb CU	17,371	1,230	7.1%	\$663,318	\$539
Christian Financial CU	34,518	1,846	5.3%	\$983,876	\$533
Communicating Arts CU	7,255	1,012	13.9%	\$182,029	\$180
E&A CU	31,916	749	2.3%	\$296,895	\$396
ELGA CU	38,513	1,450	3.8%	\$558,190	\$385
Frankenmuth CU	21,384	758	3.5%	\$408,826	\$539
NuUnion CU	89,007	1,224	1.4%	\$736,716	\$602
Option 1 CU	33,831	2,214	6.5%	\$840,481	\$380
Total	273,795	10,483	3.8%	\$4,670,330	\$446

SURVEY FINDINGS

Because Save to Win is the first US test of a scaled-up PLS product, learning from the initiative was a key goal for its sponsors. To that end, each Save to Win certificate holder was invited to complete a voluntary survey when he or she opened an account. To date, over 50% of certificate holders have completed this survey. One important finding from the survey is that the product attracts a variety of credit union members of different ages and income levels, suggesting it can both draw in new, lower-income savers and attract more well-off, larger depositors that help build overall account balances.

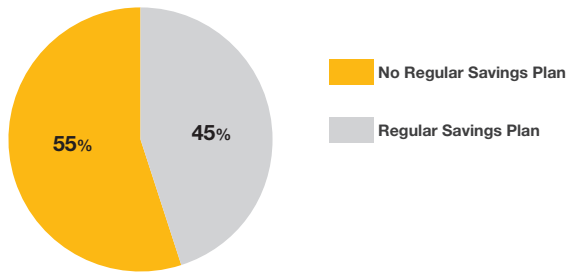
While the product has seen broad appeal among credit union members generally, survey results show a significant positive impact on specific types of members:

- **Non-Savers:** 55% of Save to Win certificate holders report they had not saved money regularly before opening the Save to Win account. This finding suggests that a prize-linked saving product may draw in first-time or non-savers, a central part of the mission of credit unions and a widely acknowledged worthwhile public policy objective.
- **Product Aspirers:** 64% reported they had never had a share certificate or certificate of deposit (CD) before. The majority of survey respondents had never used one of most common financial products focused on saving, yet were drawn to try one for the first time when offered a prize-linked product.

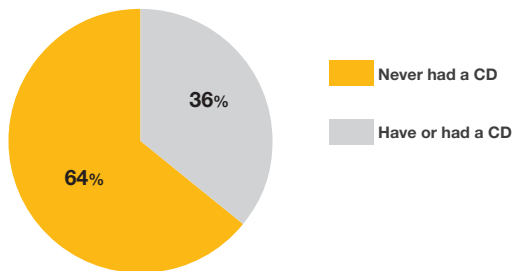
- **Asset Poor:** 39% reported financial assets (excluding home equity) of \$5,000 or less. Viewed through the lens of both public policy objectives and credit union missions, attracting those with little savings to begin setting aside funds is an important achievement.
- **Lottery Players:** 59% note spending money on the lottery in the last 6 months, a figure which may well be under-reported. To the extent Save to Win deposits represent a redirection of account holders' income from a form of entertainment (lottery play) to a form of saving, a prize-linked product may help convert individuals' consumption into investment.
- **Low-to-Moderate Income:** 44% report household income less than \$40,000, while 16% report household income under \$20,000. Many observers agree that the segment of the population where savings rates lag most is, not surprisingly, those with the least income. Tools that can help foster saving among these stretched households offer a way to address this underserved segment, which arguably has most to gain from achieving higher savings balances.

SAVE TO WIN RESPONDENT CHARACTERISTICS

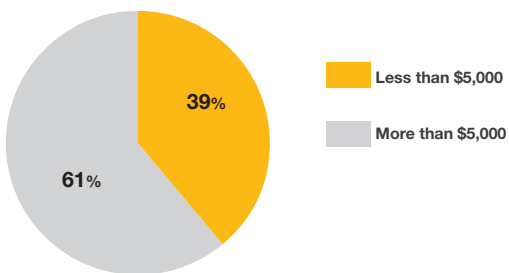
Savings Habits - Source D2D Fund.



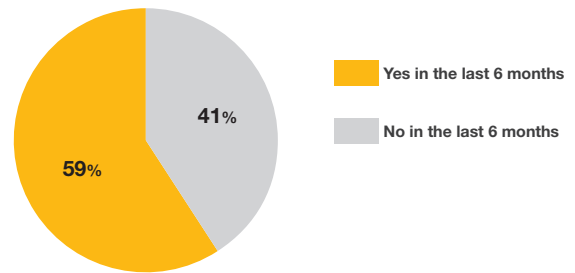
Product Aspirers - Source D2D Fund.



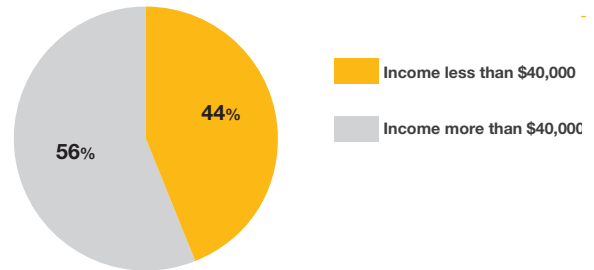
Asset Poor - Source D2D Fund.



Lottery Players - Source D2D Fund.



Low-to-moderate Income - Source D2D Fund.



While these survey findings are not conclusive, they suggest prize-linked products hold promise to advance the long-standing, if challenging, mission of credit unions to help middle and low-income Americans save, and address some of the most difficult challenges in establishing a widespread culture of saving for all Americans.

Over 5,200 (52%) of Save to Win certificate holders completed a voluntary survey.

INITIAL LESSONS

After eight months, the Save to Win project has already generated important lessons. These include:

Demand Exists, Especially Among Important Segments. With over 10,000 accounts opened and over \$4.67 million saved in 32 weeks, it is clear that a PLS product appeals to Michigan credit union members and consumers generally. This finding mirrors the experience of other countries around the world over the past fifty years. As financial service industry leaders and policy makers contemplate the role for PLS products and policies, they should feel confident that consumers like the concept.

A Large Headline Prize is Important. Credit unions report that a large prize draws consumers' attention in a very competitive financial services marketplace. Here too, a finding from Save to Win is validated by experience from another context. State lotteries have known for years that attention-getting, transformative prizes fuel consumers' imaginations and draw in customers, even if frequent awards of small prizes are critical to keep consumers engaged. For credit unions considering a PLS product, it is important to note that offering a substantial jackpot would not have been feasible without collaboration and a commitment to a shared infrastructure.

Americans Love Winning. While no surprise to the lottery industry, quantitative feedback from this project has made clear that monthly small prizes are well-received by members who win, and a source of interest and excitement for all Save to Win certificate holders. In addition, the process of awarding prizes offers an opportunity to celebrate with the winning member and generate further excitement and consumer interest. For example, Communicating Arts Credit Union asks winners to come into a local branch to receive their winnings, whereupon tellers count out prizes in \$1 bills and snap a photo of a smiling member holding his or her cash.

Save to Win Marketing Has Only Scratched the Surface. To date, in an effort to focus limited resources, Save to Win marketing has been directed to current members. While this approach has been successful, a large opportunity may remain to use a PLS product to attract new members or customers. In a crowded financial services landscape, a PLS product is unusual and exciting, and may well break through marketplace clutter to reach prospective new customers. To test that very question, Option 1 Credit Union has begun a focused external marketing test to run through the early fall.

Credit Unions Collaborate Successfully. The Save to Win credit unions have demonstrated the benefits of successful collaboration and shown that sharing a common product infrastructure and grand prize expense can work in this industry. In the case of Save to Win, eight heads have truly been better than one; idea sharing has included technical, operational, legal, marketing, sales, and PR expertise, while cost sharing has allowed institutions to launch a product together that almost certainly none would have introduced acting alone.

The Michigan Savings Raffle Promotion Legislation Encourages Savings. The *carve out* in Michigan law that allows credit unions to offer a savings raffle such as Save to Win is working as designed. Despite an economy among the worst in the nation, Michigan residents are saving over \$140,000 per week through Save to Win. The language of the Michigan Credit Union Act has been sufficiently clear to make the boards of eight credit unions comfortable participating in a PLS product. And as a result, 10,000 Michigan residents now have over \$4 million in savings to manage short-term crises, fund college educations, provide home down payments, ensure a more secure retirement or serve as an alternative to costly consumer borrowing.

THE BIG PICTURE

The Save to Win results thus far are the proverbial tip of the iceberg. Within five years, imagine a million American households (roughly 1% of all households), including an estimated 30% or 300,000 low-to-moderate income households, opening a prize-linked savings account. With an average account balance of \$500, these households would save over a half billion dollars, funds that would increase households' financial security and range of financial options to meet emerging needs.

With their openness to innovation, ability to collaborate and focus on helping members of modest means save, credit unions are well-suited to lead the way in making this vision achievable.² The 8 participating Michigan credit unions have been critical in demonstrating the potential of prize-linked savings in the United States. Michigan in particular, because of its enabling legislation, affords an ideal location to continue expansion, growth, and learning about this innovative savings tool. Proponents of increased national savings rates and more attractive saving choices for Americans of modest means should hope that, looking to Michigan, additional state legislatures adopt similar savings promotion raffle provisions for credit unions.

Innovation within Save to Win continues. As noted, Option 1 Credit Union is currently conducting a new-member marketing campaign. All eight credit unions are participating in a sales incentive program to test the impact of employee incentives on product growth. A fall marketing campaign is being designed to draw in new deposits. And of course, all eyes are focused on the first annual \$100,000 grand prize; the winner will be named in January, 2010.

Stay tuned. People are saving AND winning in Michigan.

² See *The Federal Credit Union Act*, available at: http://www.ncua.gov/Resources/RegulationsOpinionsLaws/fcu_act/fcu_act.pdf



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DOORWAYS TO DREAMS

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