

SAVE TO WIN

**2009 Final Project Results
2010 Implications for Credit Unions**

Foreword by

Peter Tufano, PhD

Sylvan C. Coleman, Professor of Financial Management

Harvard Business School



Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Though independent research and innovation programs the Institute examines issues vital to the future of credit unions.



Progress is the constant replacing of the best there is with something still better!

– *Edward A. Filene*

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i³, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the U.S. credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.

The Save to WinSM project is supported by a collaboration among the Doorways to Dreams (D2D) Fund, the Filene Research Institute and the Michigan Credit Union League. The prize-linked savings concept on which Save to Win is based has been championed by Harvard Business School Professor Peter Tufano, co-founder of D2D and Filene Fellow. The 2009 program was underwritten by a grant from the Center for Financial Services Innovation's (CFSI) Nonprofit Opportunities Fund, which is generously supported by The Walmart Foundation.

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DOORWAYS TO DREAMS

The Doorways to Dreams Fund (D2D)

www.d2dfund.org

The D2D Fund seeks to expand access to financial services and asset-building opportunities for low-income families by creating, testing, and deploying innovative financial products and services. D2D works with the financial services industry, national nonprofit groups, grassroots community agencies, and public policy organizations to generate promising ideas, pilot test systems and programs, build awareness of the needs and potential of low-income communities, and advocate progressive social and economic policy.



The Center for Financial Services Innovation (CFSI)

www.cfsinnovation.com

CFSI, a nonprofit affiliate of ShoreBank Corporation, was founded in 2004. Its mission is to assist the financial services industry to identify, develop, and implement innovative ways to serve the underbanked market that are profitable for both company and customer. CFSI believes that the long-term economic interests of both sides are best served by combining the drive and resources of private industry with a deepening understanding of how to move consumers in this broad, increasingly desirable market segment toward building assets and financial prosperity.



The Michigan Credit Union League (MCUL)

www.mcul.org

Organized in 1934, the Michigan Credit Union League is a statewide trade association representing Michigan's 334 credit unions. Based in Lansing, the MCUL offers credit unions assistance in the areas of regulatory compliance, legislative advocacy, media advocacy, and operational information. Throughout its 75-year history, the MCUL has focused on fostering, protecting, and promoting the vitality of credit unions by providing programs and services that will enhance their ability to enrich the lives of their members.

Central Macomb Community Credit Union

Clinton Township, MI

Isaac Dreme, CEO

Heather Bade, Vice President of Marketing and Human Resources



Christian Financial Credit Union

Roseville, MI

Patricia Campbell, CEO

Lauren Vance, Vice President of Strategic Development & Product Delivery



Communicating Arts Credit Union

Detroit, MI

Hank Hubbard, CEO

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E&A Credit Union

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ELGA Credit Union

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Frankenmuth Credit Union

Frankenmuth, MI

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NuUnion Credit Union

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Grand Rapids, MI

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By Peter Tufano
Sylvan C. Coleman
Professor of Financial
Management
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Save to Win’s success in helping Michigan residents save is a positive sign in a troubled economy. In a world where financial innovation is a dirty word, financial institutions’ reputations are tarnished, and cooperation among credit unions is more theoretical than realized, a remarkable partnership has produced a new and exciting way to save.

Save to Win’s success in helping Michigan residents save is a positive sign in a troubled economy. In a world where financial innovation is a dirty word, financial institutions’ reputations are tarnished, and cooperation among credit unions is more theoretical than realized, a remarkable partnership has produced a new and exciting way to save. In communities devastated by the downturn in the national economy, exacerbated by deep cuts in the auto industry, high unemployment rates, and depressed local conditions, thousands of individuals have chosen to “save to win.” While one Michigan woman was the “winner” of a \$100,000 grand prize, all of the other 11,666 participants in the program were winners—putting away over \$8 million to fund future dreams and to cope with emergencies.

Over \$8 million was put away to fund dreams and to cope with emergencies.

Save to Win’s success, while gratifying, was predictable. Over the past few years, I and a few others have been studying lottery-linked or prize-linked savings structures. Historians have written about how schemes combining lotteries with savings have been used successfully for over 300 years. Economists have catalogued these products, and studied the factors that make them attractive to savers.

Behavioral researchers have written about how this type of payoff seems almost tailor-made to match known decision-making biases. Business researchers have documented how firms design and market these products successfully. All of this work leads to one conclusion: a well-designed-and-implemented prize-linked program will have great appeal. You don’t need a Ph.D. to understand this appeal; the marketing slogan for a South African variant of this product simplified the consumer value proposition to six words: “Everything to gain, nothing to lose.”

Peter Tufano

Peter Tufano is the Sylvan C. Coleman Professor of Financial Management at the Harvard Business School and serves as the school's Senior Associate Dean for Planning and University Affairs. He previously served as the Director of Faculty Development and as Head of the Finance Unit at HBS. His research and course development focus on mutual funds, corporate financial engineering, and consumer finance.

Peter is a Research Associate at the National Bureau of Economic Research and the co-chair of its working group on Household Finance. He founded Doorways to Dreams Fund, Inc., (www.d2dfund.org) a nonprofit R&D lab that translates these ideas into practice in partnership with businesses and policy makers. He serves on several non-profit, research, university, and government advisory boards. He consults to firms, non profits and governments; is a mutual fund independent trustee; and teaches in various executive education programs.

Before joining the HBS faculty in 1989, Tufano earned his Ph.D. in Business Economics from Harvard University; his MBA from HBS, with high distinction as a Baker Scholar; and his A.B. degree in economics, summa cum laude, from Harvard College.

I have worked on a few projects of this sort, and often practical roadblocks prevent them from coming to fruition. While the theoretical potential of prize-linked savings may be substantial, bringing a project like this to life is hard work, especially when facing a host of barriers, including outright legal prohibitions and the need to create a collaborative model to gain scale. While I sometimes get credited for Save to Win, it was the insights, dedication, and toil of a remarkable partnership that gave Michigan savers this new way to save. In particular, I am proud of Doorways to Dreams Fund, the Filene Research Institute, the Michigan Credit Union League, the eight participating credit unions, and the Center for Financial Services Innovation.

The appeal of prize-linked savings is understandable. In 2008, U.S. lottery sales were \$60.6 billion in the 42 states; Washington, D.C.; and Puerto Rico where they were offered.¹ Spread out over the 112.4 million households in the entire United States, this was \$540 per household. In the same year, American households spent \$430 per household on all dairy products and \$444 on alcohol.² We buy more lottery tickets than milk or beer. It's a stunning testament to the power of excitement and optimism to drive consumption. Save to Win merely harnesses this same energy to fuel savings.

There's a lot we don't know yet about prize-linked savings: Is it sustainable over long periods of time? What spending activity does it displace?

But Save to Win has provided us with tentative answers to two core questions:

- Are Americans today like people all over the globe and throughout history who have found this an attractive product? **Yes.**
- Can credit unions work together to bring this product to eager savers? **Yes.**

Savings is hard work, and bringing new savings products to life is hard, too. Bravo to Michigan savers and the Save to Win team for showing us a way to make savings exciting.

¹ <http://www.naspl.org/index.cfm?fuseaction=content&PageID=3&PageCategory=3>

² <http://www.bls.gov/cex/2008/Standard/age.pdf>



By Denise R. Gabel
Chief Innovation Officer
Filene Research Institute

For many years, Peter Tufano has been researching ways to solve the problem of encouraging American's to save—that makes Peter the idea champion for prize-linked savings (PLS). From his research and that seed of an idea, PLS has now emerged as a Save to Win product.

However, seeds only grow under the right conditions. And it was the Doorways to Dreams (D2D) Fund, the Filene Research Institute, the Michigan Credit Union League, eight credit unions, and the Center for Financial Services Innovation's Non-Profit Opportunities Fund (supported by the Walmart Foundation) that turned the soil, removed the rocks, and enabled this idea to germinate from a concept into a successful product in the marketplace.

What are the ingredients for a successful innovation?

- A problem to solve
- An idea champion
- Early pilot evidence
- A project team
- Funding
- Results
- Key learning



This report was prepared by the Doorways to Dreams Fund with contributions from the project team members. The report documents the project, product results, key lessons learned, and outlines the issues and opportunities to bring this product to scale throughout the United States.

The implications for consumers are clear—this product provides a gateway to saving. The implications for credit unions are many. Can credit unions and the success in Michigan assist with public policy changes to support savings promotional raffles? Can this product differentiate credit unions? The product needs scale. What are the limitations to credit unions collaborating across the United States?



*Over 11,500
Save to Win
accounts were
opened.*

Denise R. Gabel

Denise R. Gabel is the Chief Innovation Officer at the Filene Research Institute. Denise joined the Institute in 2006 to continue to build the innovation competency at Filene and extend that capability to credit unions. She is responsible for applying new innovation methodologies, overseeing innovation programs, and developing processes to ensure an effective pipeline of solutions to connect the past and the future for credit unions and consumers.

Previously, Denise served as the Vice President, Strategic Direction for the Spokane Teachers Credit Union, leading strategic planning, innovation, and corporate governance. She is a certified trainer for the Institute for Financial Education and a faculty member for CUNA Management Schools. Denise is a summa cum laude graduate at Eastern Washington University. In 2008, she graduated from Harvard Business School's Women's Leadership Forum.

The national media has featured this project; more Michigan credit unions are implementing PLS in 2010; several states have introduced bills to permit PLS; and credit unions and leagues are eager to learn more. There's no doubt this project shines the spotlight on credit unions. I think you'll find the full report not only insightful as it relates to the Save to Win product launch, but you'll also find the framework for collaboration and the blueprint for a successful innovation.

Important Findings

- Strong demand for PLS accounts exists among credit union members.
- PLS balances grow over time, though amounts saved each month may fall.
- PLS products can attract financially vulnerable consumers and positively impact their saving levels.
- The offer of prizes can attract lottery players and has the potential to help redirect lottery consumption into savings.
- Certain PLS product features may help attract first-time savers.
- Certain prize-structure designs hold the potential to motivate individuals to save consistently.

Americans have a long history of saving money. Ben Franklin famously admonished his countrymen that “a penny saved is a penny earned,” while early Puritan settlers viewed thrift as a virtue and wealth as a sign of divine favor. Even in the 20th century, Americans retained their ability to save.

During the Second World War, more than \$54.4 million was saved in a relatively new financial product, the U.S. Savings Bond.³ And as late as the 1980s, it was a rare homebuyer who had not saved up a down payment equal to one-fifth of the value of the home he/she wished to purchase.

“A penny saved is a penny earned.”

—Ben Franklin



Despite this long history of thrift, over the past two decades saving has fallen out of fashion among Americans. In fact, in one recent calendar quarter, the national savings rate actually dipped below zero.⁴ More recently, as the current recession has taken hold and frightened Americans about their economic security, the savings rate has begun to climb. But it is too early to know if this newly rediscovered emphasis on saving is a fleeting response to economic uncertainty or a permanent shift in behavior. Likewise, we do not yet know if saving has picked up across the income spectrum or, as seems likely in a recession, mainly among those with higher incomes.

Regardless, it is reasonable to believe that the need for American families to save more is not fleeting. Savings has and will continue to play a critical role in insulating people from financial shocks, helping them make important purchases and providing an alternative to costly credit. At a time when jobs are disappearing and workers’ hours are being cut, families’ needs for reserve funds are, if anything, even more pronounced. The time is right for America to return to a saving culture, both to shore up households’ finances and to strengthen the nation’s economy as a whole. But how?

³ “A History of the United States Savings Bond,” U.S. Savings Bond Division, Department of the Treasury, 1991.
http://www.treasurydirect.gov/indiv/research/history/history_sb.pdf.

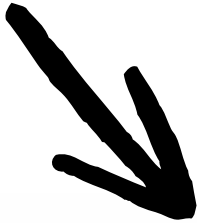
⁴ Federal Reserve Bank of St. Louis. <http://liber8.stlouisfed.org/newsletter/2007/200710.pdf>.

Saving money generally requires an affirmative choice, a decision to set aside some income – and, as a result, to have that much less to spend on life’s necessities and luxuries. If we are to influence consumers’ spending and saving choices, we should start by analyzing the factors that shape this choice. For many of us, the benefits of saving money are long-term and abstract, while the reward for spending money is tangible and immediate gratification. Perhaps the way forward, then, is to infuse the act of saving money with some instant, visceral payback some excitement, anticipation, and allure. Then a well-intentioned consumer might face a spending/saving choice with more balance, with a bit of gratification embedded in either act.

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 products successful in countries around the globe. The Premium Bonds program in the United Kingdom, for instance, has a 50-year history of helping Britons save. With well over 20 million people holding more than 25 billion pounds (*Over \$38 Billion U.S.*) worth of Premium Bonds, the program is an established institution.⁵ A similar story can be told about PLS products in other countries from Sweden to the United Arab Emirates.

The appeal of prize-linked savings only seems to increase when one considers how popular America’s 42 state lotteries are today. By one estimate, there are more than 200,000 places to buy a lottery ticket in

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57%

of adults play
the lottery.

⁵ See the National Savings and Investment (ns&i) website (www.nsandi.com/products/pb/howitworks).

Save to Win Winner

Billie June Smith, a NuUnion Credit Union member, was awarded the \$100,000 grand prize at a ceremony at the NuUnion Credit Union headquarters in February 2010. The event was a great way to celebrate Billie June and the other 11,500-plus “winners” who saved over \$8.5 million. The grand prize celebration also brought additional local and national media attention. You can view a video of the grand prize on YouTube by searching “save to win grand prize winner.”



80%

*of lottery revenue
comes from players
with incomes under
\$50,000 per year.*

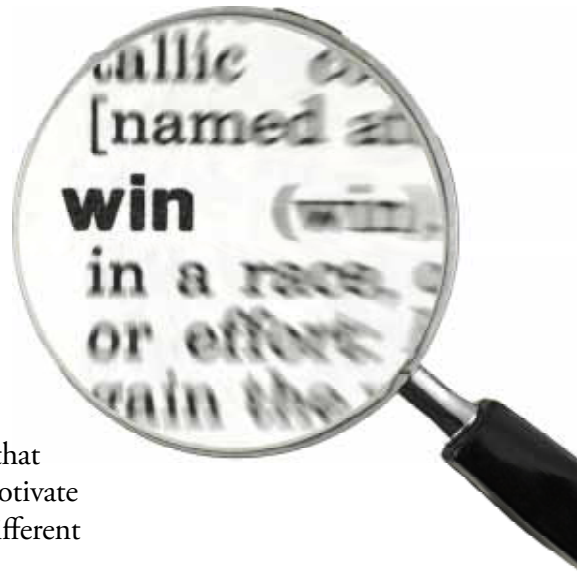
this country. In turn, 57% of adults are playing the lottery to the tune of \$53.2 billion per year.⁶ Equally significant, as much as 80% of lottery revenue comes from players with incomes under \$50,000 per year.⁷

It was with these insights in mind that Doorways to Dreams Fund, the Filene Research Institute, and the Michigan Credit Union League began contemplating a prize-linked savings program for the state of Michigan. The prize-linked savings concept was based on the research of Harvard Business School Professor, founder of D2D Fund, and Filene Research Institute Fellow Peter Tufano. D2D, along with Filene and the MCUL, developed the Save to Win product, which offers credit union members a simple but compelling proposition: for every \$25 deposited, they earn a chance (limited to 10 per month) to win both a \$100,000 grand prize jackpot and a host of smaller, monthly prizes. The offer proved as persuasive for Michigan residents as it had for Britons, Swedes, South Africans, and Pakistanis; in the course of 11 months, over 11,500 Michigan residents saved more than \$8.5 million in Save to Win accounts.

⁶ <http://www.naspl.org/index.cfm?fuseaction=content&PageID=41&PageCategory=38>.

⁷ “Consumer Demand for Prized-Linked Savings: A Preliminary Analysis,” Peter Tufano, Nick Maynard, and Jan-Emmanuel De Neve, 2008.

FOCUS: Other Prize-linked Savings Applications



Save to Win has demonstrated that prize-linked savings is a natural fit for credit unions and the credit union industry. But the concept behind Save to Win – that the chance to win substantial and frequent prizes can motivate people to save – could find expression in a number of different contexts. For instance:

- The banking industry – banks and thrifts have struggled to find good products to attract first-time savers just as credit unions have. There is every reason to believe that a PLS product offered by a bank could be successful in attracting customers who today do not save successfully. In fact, using a sweepstakes structure, some banks have already experimented with PLS-like products.⁸
- The federal government – the U.S. Treasury Department already promotes saving through the sale of U.S. Savings Bonds. There is no reason to think a PLS product offered by the federal government would not find ready buyers. For precedent, one needs only to look to the United Kingdom and its Premium Bonds program, which has been offered with huge success since 1956.⁹
- State governments – 42 states are in the business of offering citizens a chance to win prizes through state lotteries. These state lotteries could offer a PLS product that would link the current lotteries' promise of prize winning to players' savings behavior. Lotteries already have authority from their state legislatures to offer games of chance.
- Employer-sponsored retirement plans – for many Americans, regular saving occurs primarily or exclusively through the workplace in plans sponsored by their employer (typically designed to encourage retirement saving). Yet these plans have challenges attracting younger and poorer participants, even when employers provide matches. It is reasonable to believe that a PLS structure could get the attention of these hard-to-reach workers, driving participation in employer-based plans. The presence of large investment industry firms who administer plans on behalf of many employers creates an opportunity for prize pooling, as well.

42
states are in
the lottery
business.

⁸ From January 2, 2009 – March 31, 2009, Washington Mutual/JP Morgan Chase offered a chance to double deposits for up to three winners per month (up to \$10,000) called the “Double Your Deposit Sweepstakes.” (source: WaMu Product Brochure) In South Africa, the First National Bank offered a “Million A Month” prize-linked savings account that generated over 750,000 accounts and raised over 1.2 billion Rand in two years. (source: “Consumer Demand for Prized-Linked Savings: A Preliminary Analysis,” Peter Tufano, Nick Maynard, and Jan-Emmanuel De Neve, 2008.)

⁹ <http://www.nсандi.com/about/ourstory>.

In June 2008, D2D Fund and the Filene Research Institute received a grant from the Center for Financial Services Innovation’s Nonprofit Opportunities Fund to design and implement a prize-linked savings pilot. The pilot program, named Save to Win, began its planning phase in June that same year as a collaboration among the D2D Fund, the Filene Research Institute, and the Michigan Credit Union League. Eight Michigan credit unions participated in the planning process and the Save to Win pilot.

Designed to appeal to a broad demographic, the goal of Save to Win was to test the viability of prize-linked savings as a novel approach to saving. The Save to Win product was built around a federally insured share certificate, which is comparable to certificates of deposit (CD) offered by banks. It featured a chance to win prizes in addition to interest or dividend payments. In 2009, monthly cash prizes ranged in value from \$15 to \$400 and a grand prize of \$100,000 was awarded after 12 months. Now in its second phase in 2010, Save to Win (www.savetowin.org) is currently being offered by 19 Michigan credit unions with an additional \$50,000 in monthly prizes. Plans to further expand the program to other credit unions across Michigan are in motion, with at least 10 credit unions planning to join later in 2010. Monthly cash prizes in 2010 top out at \$1,000.

Save to Win was conceived as a “shared services” pilot, where core functions like marketing, legal and regulatory due diligence, evaluation, research, and prize administration are centralized and shared across participating credit unions. The impetus behind Save to Win was the premise, based on prior work with individual credit unions, that demand exists for a prize-linked savings product like Save to Win, but that such a product can only be viable at scale.¹⁰ Dramatic growth requires a shared services entity or “incubator” to test the concept and facilitate collaboration among multiple participating organizations. Save to Win was built on such a structure. This structure enabled testing of some innovations like the potential for a large prize (\$100,000) to spur savings, which was beyond the means of any individual credit union. In the 2009 Save to Win model, each credit union contributed funds toward marketing and the prizes, including the grand prize, which was also supplemented by funds from the grant award.

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Michigan credit unions are now in the program.

¹⁰ D2D and the Filene Research Institute, through its i3 innovation program, begin working on the prize-linked savings concept in 2006. This work led to Centra Credit Union of Indiana launching a sweepstakes based PLS product, Super Saver, in late 2006

At the heart of Save to Win is a one-year federally insured share certificate that allows account holders to earn chances to win prizes by making deposits. With the \$25 minimum opening deposit, the product was deliberately structured to attract low- and moderate-income consumers (see sidebar on consumer perspective). A maximum of 10 entries (\$250) per month was allowed per participant, although there was no restriction on additional deposits. The product paid an interest/dividend rate that varied from 1% to 1.5%, which was established by each credit union individually. Only one withdrawal was allowed per year, a measure taken to encourage sustained saving. Each certificate account holder had to be a member in good standing of a participating credit union, 18 years or older, and a Michigan resident.

The best known example of a game of chance in Michigan is the state-run Michigan Lottery. As a general rule, most privately-run lotteries and other games of chance are prohibited in Michigan. However, there is a provision in Michigan law that allows for “Savings Promotion Raffles.” Under Section 411 of the Credit Union Act, credit unions are able to offer programs such as Save to Win that would otherwise be prohibited. Under this provision, the only requirement for winning prizes is that credit union members deposit at least a specified amount of money in a savings account or other savings program offered by the credit union. Save to Win is implemented as a savings raffle under this provision.

An alternative legal structure, a sweepstakes, was considered and ruled out because credit unions were unenthusiastic about an approach under which non-members could participate in the program without having to make a deposit. Naturally, having the option to deploy the Savings Promotion Raffle provision was a component in this decision as well. The sweepstakes structure has been used successfully to offer PLS products, and is an option to consider for future implementations in states that lack a similar Savings Promotion Raffle provision. Please refer to the Legal Frequently Asked Questions in the Appendix for a more in-

WHAT WOULD YOU DO WITH
\$100,000?

SAVE TO WIN



IMAGINE THE POSSIBILITIES...

\$25

*was the
minimum opening
balance.*

depth understanding of the legal and regulatory issues affecting the prize-linked savings products.

The design of the creative for the marketing campaign was a collaborative effort; the Save to Win marketing sub-team worked under the guidance and support of the MCUL, a perfect example of how the product structure worked to facilitate collaboration among credit unions. The materials were designed to appeal to

Marketing Goals

Marketing planning and strategy were among the core services provided by the “incubator” comprising D2D, FRI, and MCUL, but with active credit union involvement. The goals of the marketing campaign were to:

- Build awareness of the product;
- Generate interest and inquiry; and
- Drive credit union members to sign up for the product.



members who were used to lottery images, using the headline: “Savings Barely Scratching the Surface?”

As marketing of the product moved forward at all eight credit unions, new ideas were generated and shared throughout the group. One such idea – a slogan from Frankenmuth Credit Union that asked, “What Would You Do with \$100,000?” – caught on with the entire group and led to a refreshed campaign for the fall of 2009. The

objective of this campaign was to focus on encouraging account holders to continue to make deposits (and gain more entries!) as the grand prize drawing drew closer.

In addition to the marketing efforts and under the guidance and support from FRI, three key credit union staff-focused sales efforts were also undertaken by the “incubator”: (1) product training at launch; (2) a friendly competition among the participating credit unions; and (3) individual employee incentives tied to sales targets. The latter two initiatives were proactively designed to address the expected sales lag once the excitement of the initial product launch had passed.

The friendly competition, or as the credit unions called it “coop-etition,” 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 opened 648 accounts and took top honors, receiving both the respect of its peers and a trophy.

The individual sales incentive program targeted the top sellers across all participating credit unions. Running for the seven weeks leading up to Labor Day, this program offered a \$1,000 pool of incentive money to each participating credit union. Modeled after a successful Christian Financial Credit Union incentive program, the top three prizes were \$500, \$250, and \$100, and the next six highest sellers received \$25 each. Importantly, an employee had to open at least 30 certificates to qualify for the top three prizes. Totals were tracked weekly, and a web portal was set up for employees to check their progress. During the "Race to Labor Day," 2,207 accounts were opened.

During the "Race to Labor Day"

2,207

accounts were opened.



WHAT WOULD YOU DO WITH \$100,000?

I would pay for my wedding to the GREATEST man ever, and help my mom. She helped me all my life and now it's my turn to help her.

SAVE TO WIN

YOUR WIN-WIN CHANCE TO SAVE

We all love to win. With Save to Win, every \$25 deposit is another chance at the grand prize. Start saving today, and let the dreaming begin!

SPEAK TO A MEMBER REPRESENTATIVE FOR DETAILS

Credit union members, many living paycheck to paycheck or unemployed in the 2009 recession, tell us that they love Save to Win because, as one account holder said it, “Anyone can afford \$25.” One father talked about hoping to make it to the \$1,000 minimum in savings necessary to buy a regular CD: “Somehow, with the kids and the house and the cars, I could never get that stack put away. But this is awesome. I can afford \$25 a week. I’m trying to get my sisters to do it now.” A young woman confides that she has been having trouble trying to save as much as she wanted to. “This way, it keeps the money in my account. Because I can blow \$20 anywhere in an instant; it’s a lot better off in my account.”



Save to Win gives credit union members a chance to win prizes without ever losing money. “All deposits are still yours, plus interest, when all is said and done,” said a credit union employee. “People are accomplishing goals with the help of the credit union.”

As one member put it, “If it wasn’t for Save to Win, I wouldn’t have had direct deposit. Now I have it and I like it. I started with \$25 in my account. Now, I put \$100 in every two weeks. Before this I had zero savings.”

Winners of the weekly and monthly prizes also feel uniformly good about winning, and winning gets people thinking about things like investing in their kids’ college fund or how to optimize savings they might already have. “I had to divest from my 401(k),” said one. “Times are tough. I didn’t want to, but I had to. Anyway, I can put what’s left over from paying bills in Save to Win and have a chance at winning \$100,000. You can’t go wrong with a credit union, and if you ask questions, they have answers for you.”

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FOCUS: Key Benefits to Leagues and Credit Unions



The Michigan Credit Union League is always looking for new ideas that demonstrate credit unions are unique in the financial services industry, and that's why this PLS concept caught their attention. In conjunction with their partners and the eight pilot credit unions, Save to Win exceeded all their expectations by drawing more than 11,500 account holders who saved more than \$8.5 million.

The beauty of Save to Win is that it so clearly extends the credit union mission of helping people improve their financial futures to each individual member. Every member wants to win, every member knows they need to save, and most members have the wherewithal to save a little bit. Some just need a little incentive. The MCUL believes Save to Win is the perfect incentive. Members are encouraged to start small – saving just \$25 at a time – to build savings and perhaps win some extra money. With many monthly prizes and the chance to accumulate more entries into the grand prize drawing, members are encouraged to continue to save, month after month, throughout the year. Additionally, credit union employees believe in the product and can connect with members through the promotion of Save to Win.

Continued Growth

Long-term, MCUL expects continued growth for Save to Win, as credit unions begin to see all the benefits of this product:

- Potential to increase membership;
- Opportunity to build wallet share;
- Help members build wealth;
- Tie to financial education efforts;
- Provide base for loan growth.

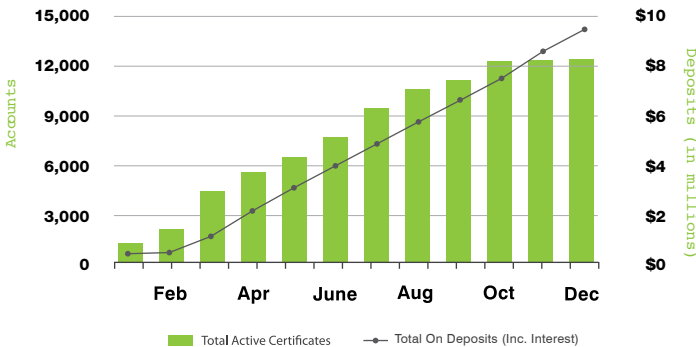


This product truly is a standout. The evidence? The amount of savings and savers in just one year, and the continued interest in and expansion of Save to Win among credit unions, in Michigan and nationally.

The 2009 Save to Win product offered in eight Michigan credit unions generated the following key findings:

- Strong demand for PLS accounts exists among credit union members.
- Saving balances grow over time, though growth slows as accounts age.
- PLS products can attract financially vulnerable consumers, and positively impact their saving levels.
- A prize-linked account attracts lottery players and may redirect lottery consumption into savings.
- Certain PLS product features appeal to first-time savers.
- Monthly prizes have great potential to motivate individuals to save consistently.

Total Active Certificates and Total Deposits



Strong demand for PLS accounts exists among credit union members.

The product generated high demand from credit union members with double-digit growth in total active accounts through August 2009. This account growth was much stronger than prior prize-linked savings products launched by single credit

unions.¹¹ By the end of 2009, Save to Win had generated 11,666 active accounts.

While the membership penetration rates varied across the eight participating credit unions, the overall penetration rate was 4.3%. Strong demand for the product came from a variety of credit union members, a finding from a voluntary survey that each Save to Win certificate holder was invited to complete at account opening. We found from the 6,027 surveys¹² completed that the product attracted members from different age groups, income levels, and financial asset levels (see Survey Questions and Summary of Results in Appendix). This finding suggests that the product can both draw in new, lower-income members and attract better-off, larger depositors to help build overall account balances.

¹¹ "Prize-based Savings: Product Innovation to Make Savings Fun," Nick Maynard, Doorways 2 Dream Fund, December 2007.

¹² The number of survey respondents also includes individuals who voluntarily completed the survey at account opening but whose accounts were closed as of December 2009. 6,027 represents slightly less than 50% of total certificate holders.

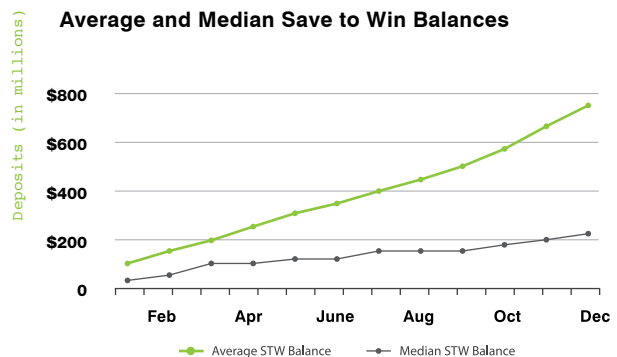
Summary of Accounts by Credit Union

December 31, 2009 Save to Win Results (Source: D2D Fund)				
	Active Certificates	% Penetration of 12/31/08 member base	Savings	Average account size
CACU	1,078	14.9%	\$306,385.95	\$284.22
CFCU	1,962	5.7%	\$1,639,631.77	\$835.69
CMCCU	1,403	8.1%	\$1,726,140.09	\$1,230.32
E&A	836	2.6%	\$595,364.24	\$712.16
ELGA	1,481	3.8%	\$815,079.53	\$550.36
Frankenmuth	989	4.6%	\$750,700.60	\$759.05
NuUnion	1,455	1.6%	\$1,391,318.25	\$956.23
Option 1	2,462	7.3%	\$1,335,762.13	\$542.55
	11,666	4.3%	\$8,560,382.56	\$733.79

Saving balances grow over time, though growth slows as accounts age.

Save to Win balances grew through the year and by December each account holder had, on average, saved \$734 with a total of \$8.56 million saved. The features of the product – a one-year certificate term, flexibility to deposit small amounts throughout the year, the withdrawal penalty, and the lure of a \$100,000 grand prize – seemed to motivate savings and retention of saving levels over the course of the year. The product even generated \$3 million in savings above the amount eligible for the monthly and grand prizes.

The average monthly deposit was \$100



While account balances increased over the course of the year, the rate at which they increased declined. The average monthly deposit in Save to Win was around \$100, or four raffle entries, but this trended downward from start of the year to the end. In contrast, the median monthly deposit (the deposit size in the middle of the distribution of all deposits) trended around \$25, or one raffle entry; it dropped off to \$0 in the last two months indicating that half the certificate holders made no deposit in November and December.

Percentage of Non-savers, Asset Poor, and Low to Moderate Income (LMI)

	Non-Savers	Asset Poor	LMI
CACU	67%	67%	62%
CFCU	54%	29%	43%
CMCCU	53%	27%	36%
E&A	62%	38%	49%
ELGA	56%	46%	46%
Frankenmuth	52%	33%	40%
NuUnion	48%	31%	36%
Option 1	54%	34%	40%

PLS products can attract financially vulnerable consumers and positively impact their saving levels.

Our survey results indicate that the product successfully attracted financially vulnerable individuals at all eight credit unions. Communicating Arts Credit Union (CACU) had the highest reported percentage of asset poor (67%) and LMI (62%) and, interestingly, also had the highest membership penetration rate (14.9%).

The product 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.

Summary of Accounts for Non-savers, Asset Poor, and Low-to-Moderate Income

	At December 2009		
	# Active Accounts	Total Saved	Average Account Balance
Non-Savers	2,824	\$1,660,897	\$588
Asset Poor	1,849	\$721,227	\$390
Low-to-Moderate Income	2,162	\$1,370,471	\$634

Non-Savers: Of those completing the survey, 56% of Save to Win certificate holders reported that they had not saved regularly before opening the Save to Win account. In the product, this group saved a total of \$1.66 million with an average account balance of \$588. This finding suggests that a prize-linked saving product may draw in first-time or non-savers, a central part of the goal of credit unions and a widely acknowledged worthwhile public policy objective.

56%
 reported they had not saved regularly prior to Save to Win.

Asset Poor: 39% reported financial assets (excluding home equity) of \$5,000 or less. In total, this group saved over \$720,000 with an average account balance of \$390. While the average balance increased by financial asset level, individuals reporting \$0 financial assets on opening the product were able, on average, to accumulate \$263 of savings by December 2009. Viewed through the lens of both public policy objectives and credit union missions, attracting those with little savings, and seeing a substantial increase in their savings is a noteworthy achievement.



Asset Poor: Account Balance by Initial Asset Level

Financial Assets	Average Balance (as of 12/31)
\$0	\$263
\$1 to \$2,000	\$310
\$2,001 to \$5,000	\$589

Low-to-Moderate Income: 44% of survey respondents reported household income less than \$40,000, while 16% reported household income under \$20,000. Low-to-moderate income members had a savings rate ranging from 2.3% to 5.2%, depending on income level. Many observers agree that the segment of the population where savings rates lag the most is, not surprisingly, those with the least income. While the lower income members, on average, saved the least amounts in this product, they also, on average, saved a higher percentage of their income. Tools that can help foster saving among these stretched households offer a way to address this underserved segment, which arguably has the most to gain from achieving higher savings balances.¹³

Annual Savings Rate by Household Income

Annual Savings Rate ¹³	
Annual Household Income	Average Savings Rate
Less than \$20,000	5.2%
\$20,000-\$40,000	2.3%
\$40,000-\$60,000	1.7%
Over \$60,000	1.5%

44%
of survey
respondents
reported
household
income less
than \$40,000.

¹³ Average annual savings rate is calculated using the mid-point of the above income ranges. For income levels above \$60K we used \$70K.

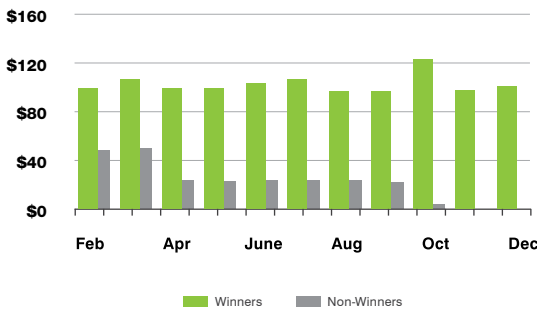
64%
had never
opened a CD
before.

A “prize-linked” account attracts lottery players and may redirect lottery consumption into savings.

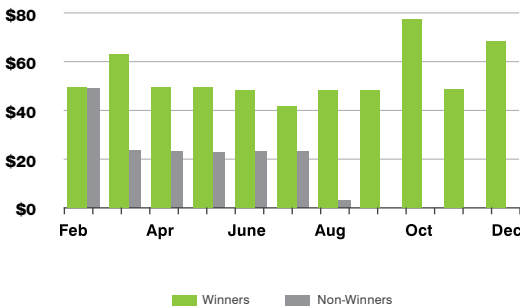
59% of survey respondents indicate spending money on the lottery in the last six months, a figure which may well be under reported. To the extent Save to Win deposits represent a redirection of account holders’ income from a form of entertainment (lottery play) to a form of saving, a prize-linked product may help convert consumption into investment.

Certain PLS product features appear to attract first-time savers.

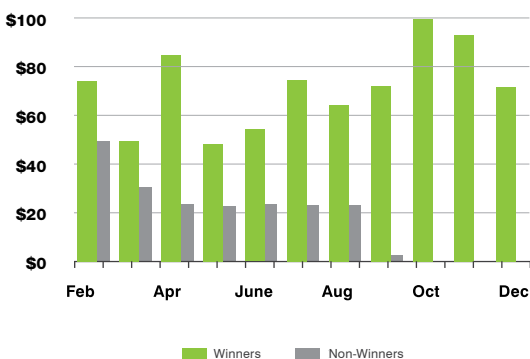
All Account Holders: Comparison of Median Net Deposits for Monthly Prize Winners and Non-Winners



Asset Poor: Comparison of Median Net Deposits for Monthly Prize Winners and Non-Winners



LMI: Comparison of Median Net Deposits for Monthly Prize Winners and Non-Winners



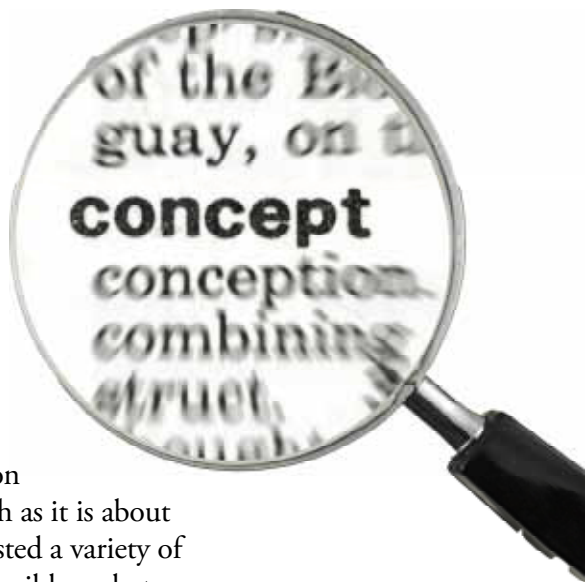
64% of survey respondents reported that they never had a share certificate or CD before. The majority of survey respondents had never used one of the most common financial products focused on saving, yet were drawn to try one for the first time when offered a prize-linked product with a small minimum opening deposit requirement. The minimum \$25 opening deposit product feature, while available at limited credit unions around the country, is still fairly unique and makes the product more accessible as CDs generally carry a much higher minimum opening deposit – \$500 would be considered a small opening deposit.

Monthly prizes have great potential to motivate individuals to save consistently.

Save to Win generated 560 monthly prize winners¹⁴ and one grand prize recipient. We found that winners were better savers than non-winners when looking at savings behavior after a prize was awarded. Across more financially vulnerable groups, low-to-moderate income members and the asset poor, winners saved more consistently than non-winners, suggesting that monthly prizes helped motivate even the most vulnerable groups to save consistently. Interestingly, winners awarded larger monthly prizes (prizes ranged from \$15 to \$400) did not appear to be better savers than winners awarded smaller prizes, which suggests that just the act of winning can encourage savings and that even a small win can motivate savings, perhaps because it makes the grand prize appear more attainable.

¹⁴ 37 of the monthly prize winners won in more than one monthly prize drawings.

FOCUS: Comparing PLS to Other Savings



Since the early 1990s, a movement has been growing to help people of modest means save and build assets. Fueled by the important and common-sense observation that long-term financial success is as much about wealth as it is about income, asset-building advocates have proposed and tested a variety of programs, tools, and products to help working people build modest wealth.

The sponsors of the Save to Win pilot are, in part, motivated by the same desire: to help working people with modest incomes build savings. For this reason, it's natural to consider how a PLS product compares with other asset-building efforts. Perhaps the best known of these are Individual Development Accounts (IDAs) – essentially matched savings accounts restricted to an investment in high-return assets, such as a home or college education. The American Dream Demonstration (ADD) IDA pilot of 1997 to 2002 is perhaps the best evaluated program of its type, with over 2,200 low-income participants studied by many researchers. The table¹⁵ below compares American Dream participants with Save to Win savers in several important categories:

	<i>ADD IDA Demonstration</i> ¹⁶	<i>Save to Win PLS Pilot</i>
<i>Number of low-income account holders</i>	1,326	1,549 ¹⁷
<i>Definition of low-income</i>	<i>Median annual household income between \$12K and \$18K</i>	<i>Under \$20K annual household income</i>
<i>Average savings balance after twelve months</i>	\$286	\$522
<i>Average monthly deposit</i>	\$33	\$69
<i>Median regularity of savings</i>	70%	44%
<i>Incentive</i>	<i>Average savings match of \$2:1</i>	<i>Chance to win \$100,000 jackpot and \$415 per month in smaller prizes</i>
<i>Total incentive cost</i>	\$741,609	\$18,458 ¹⁸
<i>Incentive cost per \$ saved</i>	\$1.96	\$0.02

15 The table uses data reported as of June 30, 1999 for the ADD IDA pilot, two years after the program started. At this time, the median length of operations at program sites was 15 months. For the Save to Win pilot the data represents one year after the program started. Seven credit unions began opening accounts in January and one began in March.

16 Sherraden, M., Johnson, L., Clancy, M., Beverly, S., Schreiner, M., Zhan, M., et al. (2000). *Saving patterns in IDA programs* (CSD Report 00-34). St. Louis, MO: Washington University, Center for Social Development.

17 Extrapolated from the total number of active accounts in December 2009 (11,666) and the percentage (13%) of survey participants who represented low income households.

18 \$18,458 is the amount of the incentive cost that can be attributed to low income households. (total Save to Win incentive cost of \$139,010 X 13%, the percentage of low income account holders).

Save to Win is not an IDA program, nor vice versa. IDAs have typically been offered as a part of a social service program, while Save to Win is very much a financial product. Moreover, whereas IDA programs are typically established exclusively to benefit very low-income people, by design Save to Win appeals to a broad cross-section of consumers.

Nonetheless, as policy makers and other asset advocates consider options to drive saving by lower-income Americans, it is worthwhile to consider what policy changes can produce the biggest impact. While IDA programs have been shown to help vulnerable consumers learn to save and make important asset purchases, the data presented here suggest a PLS product:

- Can achieve better savings outcomes (83% higher balances, on average, after a year of saving) for a similar set of consumers at much lower cost (2 cents of incentive funds per dollar saved vs. nearly \$2 per dollar saved).
- Has the potential to attract a higher number of low-income savers (17% more people opened Save to Win accounts in a year than opened American Dream Demonstration IDA accounts in 15 months). Moreover, the uses for the PLS product are more flexible than the IDA, which would allow a low-income saver to build a rainy day fund or emergency fund.

83%
higher balances after
a year of saving.





PLS prize structures must be carefully designed to achieve two goals:

- Capture consumers’ attention and imagination; and
- Maintain their interest and excitement over time.

1. Public policy for savings promotion raffles works.

Whoever introduced savings promotion raffles into Michigan law had foresight, as they benefit both consumers and credit unions. Consumers receive the opportunity to save money, earn interest, and win prizes. The product can also help attract lower-income savers, who have less access to savings products that meet their needs and preferences. At the same time, in contrast to sweepstakes-based PLS products, credit unions can be assured that only those who buy the product and save money can win prizes. It is reasonable to ask if this type of legislation should be explored in the other 49 states.

2. “Winning” is a powerful and motivating experience for savers and prospective savers, regardless of the prize size.

The savings behavior of prize winners – both average and median monthly deposits – does not drop off as it did among non-winners. PLS prize structures must be carefully designed to achieve two goals: (1) capture consumers’ attention and imagination; and (2) maintain their interest and excitement over time. It seems likely that more monthly prizes, regardless of size, could help support the savings goal of the product. At the same time, winning must be effectively celebrated and promoted for it to influence other consumers. Celebrating winners, even small winners, creates a beneficial cycle that can have a positive impact on both savings and account opening.

3. An “incubator” approach can bring prize-linked savings to life. Save to Win was a 19-month pilot.

In six months’ time, D2D and the Filene Research Institute catalyzed the MCUL and interested Michigan credit unions around the idea of offering an innovative prize-linked savings product. Throughout the 13-month Save to Win product implementation, the shared services model, managed by D2D with support from Filene and MCUL, effectively navigated product development, legal analysis, marketing, training, drawing procedures and administration, and product sales strategies.

4. The credit union industry is well suited to incubate and scale a prize-linked savings product.

Credit unions are collaborative, and that collaboration was key to the success of the Save to Win pilot. Collaboration allowed economies of scale that smaller institutions, often with more vulnerable members, do not usually enjoy; at the same time, larger institutions, often with wealthier members, participated in a project that reached many underserved, first-time savers. With the credit union movement's historic links to thrift and savings and—equally important—mission to serve lower-income consumers, collaboration provided not only operating efficiencies but a unique chance for institutions to help one another achieve their missions.

5. Save to Win does an excellent job of getting the attention of both savers and non-savers, but further experimentation and study are needed to develop sustained, consistent savings habits among account holders.

Aggregate monthly deposits hit a \$1 million plateau in July, while the median monthly deposit fell to \$0 for the final two months of 2009. Opening month deposits were about twice as much as monthly account contributions for most account holders, which suggests the novelty of the product and a consumer's excitement at account opening wear off over time. An estimated 15–20% of account holders established an automatic deposit into their Save to Win accounts, so one natural strategy to increase sustained saving would be greater emphasis on helping account holders set up automatic deposits.

15-20%
*established
automatic deposit.*



6. A large headline prize matters.

The remarkable demand for Save to Win certificates observed in this pilot suggests that a large headline prize is indeed an important component of a successful prize-linked savings product. The two marketing campaigns of the pilot year were built around the \$100,000 prize. Initially, a scratch-off lottery ticket with \$100,000 prize was featured. Beginning in the fall, the phrase “What would you do with \$100,000?” drove the campaign. In addition, a survey of front-line employees indicated strong support for the prize at that size.¹⁹ With that said, we have no basis for knowing the optimal headline prize size nor how much a headline prize drives consumers to save money after they open an account.

7. Sales training and sales incentives are low-cost, effective means to generate strong take-up of Save to Win.

With almost no promotion of Save to Win occurring outside of credit union branches, front-line credit union employees were the most important ambassadors for the product. Following product launch, 2,677 accounts were opened through the end of February. During the summer months, a “coop-etition” among the eight credit unions generated 2,471 new accounts and a “Race to Labor Day” employee sales incentive led to another 2,207 new accounts. These activities alone represent 63% of the total accounts opened for the year. Clearly, investments in employee training and motivation generate results.

8. Promoting a new PLS product requires a thoughtful marketing plan to generate excitement.

Because prize-linked savings is a new concept for nearly all U.S. consumers, a successful product launch requires sponsors to think carefully about how to capture the attention of and educate prospective savers. From the brand name to the promotional materials (collateral), marketing must be designed to explain the product, foster excitement among employees and consumers, and generate sales. In addition to these pieces’ direct impact with consumers, the availability of quality marketing materials allowed for consistent messaging across all participating credit unions.

¹⁹ 94% of employees surveyed (n=326) across all eight credit unions indicated that \$100,000 grand prize is large enough.

FOCUS: Low-Income Credit Union Profile

Assets: \$28.9 million

Members: 7,967 (as of 12/09)

Branches: 3

Market served: Low-income individuals and families living and working in Detroit, Michigan



Communicating Arts Credit Union (CACU), a community development, low-income credit union, had previously considered offering prize-linked savings but the obstacles proved insurmountable for a resource-constrained credit union the size of CACU. Offering a relatively unknown product and one potentially fraught with regulatory complexity meant that CACU would have to take on the task of addressing these difficult issues on its own, when its modest resources were already allocated elsewhere. However, with Save to Win, Hank Hubbard, CEO of CACU, found that the collaborative approach with eight credit unions involved and centralized core functions provided the support and infrastructure his credit union needed to tackle these difficult questions. According to Mr. Hubbard, CACU might never have gotten a prize-linked savings product off the ground if he had not had the opportunity to participate in Save to Win.



Of the eight participating credit unions, CACU had the highest penetration rate, at 14.9%, with 1,078 Save to Win accounts, an average balance of \$284 and total Save to Win savings of \$306,386. This product had the highest growth rate for any new product introduction at CACU.,

Did the economics work for CACU's Save to Win product? At a gross level²⁰ the answer is a resounding yes, when compared to a 10% APY Certificate of Deposit with a minimum balance requirement of \$500 (down from an initial \$1,000) that CACU launched four years ago to spur saving. Even with a 10% APY the product was unable to attract many savers as the \$500 was a large barrier to entry for its members. CACU currently has 117 of these CD accounts with a total of \$114,000 in deposits. Save to Win, with a more accessible entry point, was able to attract 1,078 account holders in its first year who saved a total of \$306,386. Offering a guaranteed interest rate of 1%, and a total spent

²⁰ This analysis does not include any other cost allocations.

of \$14,980 in prizes, the effective annual interest paid on CACU's Save to Win assets of \$306,386 was 5.9%. Save to Win effectively spurred savings, as CACU desired, at a significantly cheaper rate than their 10% APY CD.

But the product is still new. Looking forward, if CACU can keep its momentum and double its Save to Win deposits, the effective annual interest rate would fall to 3.4%. At three times the deposit base, it would be an even more attractive 2.6%. These figures also assume that the cost of Save to Win participation for CACU remains the same; in fact, as the number of participating credit unions has grown in year two, MCUL has already adjusted the cost for each credit union. And market rates on share certificates have fallen, lowering the cost for CACU of the guaranteed dividend payments to Save to Win account holders. Given that the cost of prizes is not linked to interest rates, the cost of Save to Win deposits will not rise in lock step with future interest rates. This makes the product potentially more attractive in future, presumably higher, interest rate environments.



Why was the Save to Win account more successful than the prior, high-interest rate CD? According to CACU CEO Hank Hubbard, "I think that is because of who our membership is. They can't scrape together \$500 for a CD, but they can do \$25 and that is adding up and making a difference." According to Kim Vermander, Senior Vice President of CACU, "We also have a club account that is very popular with our lower income

members. They like the fact that it grows but they can't touch it. Save to Win takes this concept and makes it exciting."

CACU is an excellent example of how a low-income population that lacks the funds to save responds to a prize-linked savings product like Save to Win. Low-income people are the ones who need to save the most. CACU's members are more susceptible to predatory financial services. This type of prize-linked savings account offered in Michigan with its low barrier to entry and limited withdrawal allowances performed well for the population it was meant to attract, one typified by CACU's members: low income, asset poor, and more susceptible to predatory financial services.

The Save to Win project team’s vision for the future is that prize-linked savings is ubiquitous, that all Americans have access to some type of prize-linked savings product. Our basic belief, that saving can be fun for all Americans, especially those of low and moderate income, has been borne out by the results of the Save to Win pilot. But to open the floodgates and achieve scale, a number of events must occur:

- The regulatory and legal environment must favor offering such a product. This requires policy change, which can best be brought about if prize-linked savings can be shown definitively to generate new savings, encourage individuals who had never saved before to begin saving, and encourage and foster a savings habit among these and existing savers. Continued research to further test and document these ideas may be necessary, and would certainly be helpful, to inform policy makers and effect change.



- New distribution channels are needed for offering prize-linked savings. There is already an effort under way to expand Save to Win in credit unions beyond Michigan. Banks, lotteries, employers, and the government (precedent exists in the UK with the government-sponsored Premium Bond program) present additional and as-yet-unexplored channels for prize-linked savings in the United States.
- Further innovations in prize structure, marketing and ongoing support are necessary to sustain and nurture the savings habit among those who begin to save (current account holders of Save to Win, for example).
- Innovation in prize structure: Just as Save to Win tested the potential for a grand prize to spur saving and generate excitement, we hypothesize that numerous smaller prizes (5,000 \$25 winners, for example) awarded more frequently and a greater number of large prizes (two \$50,000 grand prizes, for example) might be just as, or more, fruitful in driving account openings and ongoing saving.²¹ Collaboration with “prize experts” can be critical in designing the right prize structure.
- Marketing: The potential for marketing to attract new members was not explored fully in Save to Win, due to a

²¹ The Save to Win program is already experimenting with prize structures for 2010; 15 prizes ranging from \$125 to \$1,000 will be awarded each month among all participating credit unions, and individual institutions will supplement with additional prizes just for their Save to Win members.

budget that made it impractical to target consumers who were not already credit union members. But we believe that marketing aimed at all consumers has enormous potential to attract new members, those without bank accounts, and perhaps even allow prize-linked savings to shift market share from other games of chance.²²

The potential for experimenting with channels, prize structure, and marketing are limited only by our imagination, and by our ability to attract deposits at scale.



²² For 2010, plans are in the works for a \$700,000 radio campaign in Fall 2010 to promote Save to Win; by its nature, a radio campaign would reach prospective new credit union members.

Anyone interested in the use PLS products in the United States inevitably confronts the question: Are they legal? Or, more precisely, where and under what conditions are they legal? This appendix will help readers better understand the American legal landscape for PLS products, as the authors understand it. Readers should know that this is not legal advice, and the authors are not attorneys. Individuals and organizations should consult their own legal counsel and reach their own conclusions before taking any action related to PLS products.

What defines a PLS product?

In the broadest terms, PLS products combine saving and chances to win prizes. In practice, two types of PLS products have emerged in the United States, each built on a different type of game of chance: lotteries and sweepstakes.

A lottery is an event in which a prize is awarded based on chance, where entry is gained by giving something of value (usually money, but may include credit, goods, services, etc.). By contrast, a sweepstakes is a game of chance in which entry is open to all entrants without any payment or other consideration. If an organization offers a PLS product in which the prize is available only to account holders, the contest is likely a lottery. If the contest is open to anyone – for example, by offering the public a “no purchase necessary” way to participate – the contest is likely a sweepstakes.

For organizations offering PLS products with large cash prize(s), the possibility, no matter how remote, that a non-saver or non-member might win one or more prizes may represent an unacceptable business risk. It might be difficult, for instance, to feature a

grand prize winner in future marketing efforts if the winner were a non-saver. Therefore, lottery-based PLS products offer a key advantage: The behavior the product aims to promote saving is required for consumers to have a chance to win a prize.

Nonetheless, sweepstakes products are widely used in a variety of industries, and have been used by financial institutions to encourage saving. While sweepstakes laws vary by state, and any organization contemplating such a product would need to comply with state laws where the product is offered, there are fewer restrictions on what entities can offer sweepstakes-based PLS products. The focus for the remainder of this appendix will be on lottery-based PLS products, which may lend themselves to large prize structures more attractive to consumers, and are more difficult to implement in a way that complies with the current legal environment.

What areas of law bear on lottery-based PLS product legality?

The two principal areas of law governing lottery-based PLS products are gambling and banking law, both of which are heavily regulated by the federal government and by individual states.

Gambling law: In general, states ban “private lotteries,” which are those not authorized to operate by and for the state (e.g., state lotteries). As a result, PLS products structured as lotteries must be offered under exceptions to state bans on private lotteries. This was the case in Michigan with Save to Win.²⁴ In addition to state laws, a variety of federal gambling laws impact PLS product offerings. Some laws impose penalties on those who operate lotteries in violation of state law, such as the Organized Crime Control Act. Others, such as the Travel Act and the Unlawful Internet Gambling Enforcement

²³ Special thanks to Daniel Preysman, who wrote a draft of this appendix and whose research forms the basis of much of the content presented here.

²⁴ M.C.L.A. 750.315a – “Sec. 315a. This chapter does not apply to a savings promotion raffle conducted by a domestic credit union pursuant to section 411 of the credit union act or to a savings promotion raffle conducted by a federally chartered credit union, a state or nationally chartered bank, or a state or federally chartered savings and loan association

Act (UIGEA), prohibit or impose penalties for offering a product to residents of states where such products would be illegal; for example, via Internet or in television advertisements.²⁵

Banking law: Various statutes that authorize and govern financial institutions, such as the National Bank Act and the Federal Reserve Act, address financial institutions involvement in lotteries. National banks, state banks, and federal thrifts are all explicitly prohibited from operating lotteries under their authorizing statutes. State thrifts may be able to operate lotteries, with the approval of the FDIC. Credit unions are not prohibited from operating lotteries by federal law and are exempted from lottery laws in several states.

Who can offer a lottery-based PLS product?

To offer a lottery-based PLS product, an organization must consider two questions:

- 1) What type of organization will sponsor the product?
- 2) In what state will the product be offered?

Sponsoring organization: As noted, federal banking laws currently restrict the types of institutions permitted to operate lotteries. Therefore, under current law, federal and state-chartered credit unions are best suited to offer lottery-based PLS products.

State of offer: Any PLS product deemed a lottery would need to comply with state gambling restrictions. As noted, in general, states restrict private lotteries. However, there are some exceptions. We are not able to review here the gambling laws in all 50 states, together with their nuances and exceptions. Nonetheless, we list a handful of examples of states where existing exceptions to private lottery restrictions, as well as state credit union law, may allow a credit union to offer a PLS product. Keep in mind, however, that each state has specific rules and

limitations that should be thoroughly researched by a legal team familiar with a state's gambling laws before designing or offering a PLS product.

1. Michigan: As the Save to Win experience attests, it is possible to offer a PLS product in Michigan under the state's Savings Promotion Raffles provision, which permits raffles in which the only consideration required for a consumer to have a chance to win is the deposit of money into a savings product. State gambling laws permit PLS products—Savings Promotion Raffles are specifically cited as an exception to the ban on private lotteries.

2. Arizona: Under existing state gambling law, qualified tax-exempt organizations, which may include credit unions, are permitted to conduct raffles subject to several restrictions. In terms of banking law, Arizona state-chartered credit unions are not explicitly granted the authority to operate raffles; however, they are granted the rights, powers, and privileges of federal credit unions. While the National Credit Union Act is silent regarding raffles, the industry regulator, the National Credit Union Administration (NCUA), has promulgated regulations that explicitly authorize credit unions to engage in raffles for marketing purposes.²⁵

3. Georgia: Under existing state gambling law, a qualifying nonprofit, which includes state and federal credit unions, may conduct up to one raffle per year with a license from the county sheriff. In terms of banking law, Georgia state-chartered credit unions are not explicitly granted the authority to operate raffles. However, with approval from the Department of Banking and Finance, they may undertake other activities that are consistent with state law or regulation, including powers afforded to federally chartered credit unions.

		Respondents	
		#	%
Q1	Do you have a savings account at another bank or credit union (select one)?		
	Response Rate	98.0%	
	Yes with \$100 or more in it	2,300	38.9%
	Yes with less than \$100 in it	589	10.0%
	No but I used to have one	1,889	32.0%
	No I never have	1,131	19.1%
		5,909	100.0%
Q2	Do you have a checking account at another bank or credit union (select one)?		
	Response Rate	97.7%	
	Yes I use it all the time	1,760	29.9%
	Yes but I do not use it much	860	14.6%
	No but I used to have one	1,806	30.7%
	No I never have	1,462	24.8%
		5,888	100.0%
Q3	Do you have a share certificate or certificate of deposit (CD) at another bank or credit union (select one)?		
	Response Rate	97.8%	
	Yes with \$500 or more in it	891	15.1%
	Yes with less than \$500 in it	74	1.3%
	No but I used to have one	1,135	19.3%
	No I never have	3,793	64.4%
		5,893	100.0%
Q4	Which of the following statements best describes your saving habits?		
	Response Rate	98.3%	
	Usually spend more than income	327	5.5%
	Usually spend about as much as income	1,244	21.0%
	Save whatever is left over at the end of the month--No regular plan	1,728	29.2%
	Save income of one family member, spend the other	130	2.2%
	Spend regular income, save other income	307	5.2%
	Save regularly by putting money aside each month	2,186	36.9%
		5,922	100.0%

²⁶ A total of 6,027 Save to Win account holders completed a voluntary survey. Of these, 5,830 could be matched to credit union account activity data.

		Respondents	
		#	%
Q5	Not including your mortgage, if you were to add up all of your savings accounts and financial assets today approximately how much would they amount to?		
	<i>Response Rate</i>	96.4%	
	\$0	269	4.6%
	\$1 to \$2,000	1,359	23.4%
	\$2001 to \$5,000	639	11.0%
	\$5001 to \$10,000	565	9.7%
	\$10,001 to \$20,000	593	10.2%
	\$20,001 to \$40,000	622	10.7%
	Above \$40,000	1,761	30.3%
		5,808	100.0%
Q6	Do you visit casino(s) or horse racing tracks?		
	<i>Response Rate</i>	97.4%	
	Yes, regularly	99	1.7%
	Yes, somewhat regularly	303	5.2%
	Yes, but rarely	1,811	30.8%
	No	3,658	62.3%
		5,871	100.0%
Q7	Do you play MegaMillions, Classic Lotto 47, and/or the Millionaire Raffles?		
	<i>Response Rate</i>	98.0%	
	Yes, regularly	340	5.8%
	Yes, somewhat regularly	551	9.3%
	Yes, but rarely	2,078	35.2%
	No	2,937	49.7%
		5,906	100.0%
Q8	Do you play lottery games such as Daily 3, Daily 4, Fantasy 5, or Keno?		
	<i>Response Rate</i>	98.7%	
	Yes, regularly	179	3.0%
	Yes, somewhat regularly	269	4.5%
	Yes, but rarely	1,282	21.5%
	No	4,220	70.9%
		5,950	100.0%
Q9	Do you buy scratch-off lottery tickets (instant win games)?		
	<i>Response Rate</i>	98.4%	
	Yes, regularly	166	2.8%
	Yes, somewhat regularly	322	5.4%
	Yes, but rarely	2,294	38.7%
	No	3,150	53.1%
		5,932	100.0%

		Respondents	
		#	%
Q10	<i>In the last six months, about how much do you think you have spent on lottery games?</i>		
	<i>Response Rate</i>	98.5%	
	\$0	2,424	40.8%
	Less than \$50	2,585	43.5%
	\$50-\$100	524	8.8%
	\$101-200	208	3.5%
	Greater than \$200	196	3.3%
		5,937	100.0%
Q11	<i>My age is:</i>		
	<i>Response Rate</i>	98.6%	
	18-24	434	7.3%
	25-29	390	6.6%
	30-34	420	7.1%
	35-44	1,013	17.0%
	45-54	1,433	24.1%
	55 plus	2,255	37.9%
		5,945	100.0%
Q12	<i>My gender is:</i>		
	<i>Response Rate</i>	98.3%	
	Female	3,837	64.8%
	Male	2,088	35.2%
		5,925	100.0%
Q13	<i>My current family status is:</i>		
	<i>Response Rate</i>	98.5%	
	Single with no dependent children	2,059	34.7%
	Single with dependent children	834	14.1%
	Married with no dependent children	1,707	28.8%
	Married with dependent children	1,334	22.5%
		5,934	100.0%
Q14	<i>My household income (the amount of money I make each year, and the amount of money my spouse/partner makes each year if applicable) is:</i>		
	<i>Response Rate</i>	95.5%	
	\$0 - \$19,999	924	16.0%
	\$20,000 - \$39,999	1,626	28.2%
	\$40,000 - \$59,999	1,337	23.2%
	\$60,000 or more	1,871	32.5%
		5,758	100.0%

		Respondents	
		#	%
Q15	My last grade completed was:		
	Response Rate	98.2%	
	Less than High School	157	2.7%
	High school (or GED)	1,631	27.6%
	Some college	2,038	34.4%
	Associates degree	821	13.9%
	Bachelors degree	826	14.0%
	Post-Graduate degree	445	7.5%
		5,918	100.0%
Q16	My primary ethnic background is:		
	Response Rate	98.0%	
	African-American/Black	1,308	22.1%
	Asian	59	1.0%
	Hispanic/Latino	133	2.3%
	White (non-Hispanic)	4,288	72.6%
	Other:	118	2.0%
			5,906
Q17	Are you currently a full-time or part-time student?		
	Response Rate	97.8%	
	Full-time	506	8.6%
	Part-time	357	6.1%
	No, I'm not a student	5,030	85.4%
		5,893	100.0%
Q18	My current employment status is:		
	Response Rate	96.7%	
	Full-time	3,232	55.5%
	Part-time	911	15.6%
	I'm currently unemployed	693	11.9%
	I'm not employed (e.g., stay at-home mom)	992	17.0%
		5,828	100.0%
Q19	Do you own or rent the residence/home/apartment you live in?		
	Response Rate	98.2%	
	Own	4,135	69.8%
	Rent	1,260	21.3%
	Other	525	8.9%
		5,920	100.0%
Q20	Do you own a vehicle?		
	Response Rate	98.4%	
	Yes	5,467	92.2%
	No	463	7.8%
		5,930	100.0%

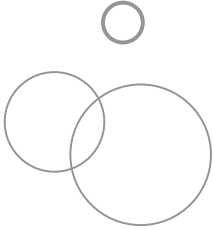


Credit Union	Location	Assets	Members
Central Macomb Community CU	Clinton Township	\$119 million	17,371
Christian Financial CU	Roseville	\$237 million	34,518
Communicating Arts CU	Detroit	\$25 million	7,255
E&A CU	Port Huron	\$179 million	31,916
ELGA CU	Burton	\$264 million	38,513
Frankenmuth CU	Frankenmuth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

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