

Prize-based Savings Products

More Interesting Than Interest



the Opportunity

According to the *Federal Reserve's 2004 Survey of Consumer Finances*, only 47 percent of American families currently have savings accounts, a decrease of eight percentage points from 2001. The Brookings Institution estimates that there are 8.4 million Americans with annual incomes of less than \$25,000 and no checking or savings account.

What's more, every year Americans pour their hard-earned money into slot machines, black jack tables, poker games, and other forms of legalized gambling. According to Tufano and Schneider (2006), Americans—including many low-income earners—spent nearly \$80 billion on gambling entertainment during 2003, at a time when the national household savings rate was heading toward zero and would soon slide into negative numbers.

In addition, a 2005 survey commissioned by the Consumer Federation of America (CFA) and the Financial Planning Association® (FPA) discovered that nearly 40 percent of low-income earners think it is more practical for them to accumulate significant savings by winning the lottery than by actually following a systematic plan for saving.

Of course, financial planners, policymakers, and economists agree families must have savings to survive financial emergencies, plan for the future, and retire comfortably. The challenge, then, is to combine the fun and excitement of gaming with the practicality and seriousness of saving to achieve the best of both worlds.



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"Several other countries have been very successful offering Prize-based Savings accounts to help increase national savings rates. These products have great potential in the U.S. and credit unions are in a unique position to help consumers save."



the Solution

Consider that credit unions can develop an account that encourages savings by offering an opportunity to win attractive prizes along with *no chance of losing the investment*. What's more, credit unions can define and organize the prizes as sweepstakes (similar to promotions regularly run by major credit card companies) to avoid the gambling stigma and address legal and regulatory compliance issues.

To participate, members simply deposit money into a specific *Prized-based Savings* account. Members earn an entry into the sweepstakes drawing for each dollar or incremental dollar amount deposited. They can deposit or withdraw from the account as needed, and there is no penalty for withdrawal. However the more members save, the greater their chance of winning a prize in the sweepstakes drawing.

As a way to offset the cost of prizes, a credit union may elect to minimize the interest rate on this account, or to forego paying interest altogether.



Getting Started

Imagine the potential should this type of account take off at credit unions! With the right type of publicity (e.g., on *Late Night With David Letterman's* regular feature: Is it something, or is it nothing?), a few quick wins by credit unions could easily snowball into a discussion of public policy and considerable exposure.

Consider the following steps to determine the extent to which your members and potential members need a product to increase savings in the U.S:

- 1 Graph your members' average savings balances over the last five years. Is it increasing? Decreasing?
- 2 Break down current savings balances into categories and look at the demographic composition of members with no-to-low savings. This should help you determine the target market within your existing membership.
- 3 Seek out demographic data (e.g., annual incomes) for your entire field of membership to determine the market size and potential for attracting new members with this account.
- 4 In addition, you should consult with legal counsel as to state and local laws and regulations governing sweepstakes and distribution of randomized prizes. After establishing program feasibility, baseline measures, and the guidelines and rules governing the program, implementation can be quickly accomplished. While piloted as a sweepstakes, there exists an opportunity to gather important consumer data which (if programs are successful) could ultimately lead to a change in regulations to permit a lottery-linked product.



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