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A series of big ideas and policy concepts designed to foster conversation and debate within the policy community.

Boosting Economic Mobility Through Prize-Linked Savings

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Abstract

The savings rate in America has been in decline for three decades, with roughly one-third of households having no savings at all. Analyses of economic mobility explore why some people are successful in moving up the economic ladder during their lifetime while others are not. While there is much debate about the degree of opportunity in America, there is general agreement that there seem to be significant obstacles facing Americans who start out in households at the bottom end of the income spectrum. But even for those starting at the bottom, lifetime trajectories vary widely. The habit of saving is a critically important complement to education and social "capital" needed for upward mobility. But we need to recognize that there are many Americans who are not inclined to take part in traditional programs designed to build a savings habit. For these Americans, financial incentives and tools with approaches that have a more emotional appeal are a more effective way of creating a culture of savings by channeling the instinct to gamble into systematic savings. This approach, known as "prize-linked savings" employs the techniques of behavioral economics to turn a behavior pattern into a savings habit that enhances the economic mobility of a household.

Discussions of economic mobility explore why some people are successful in moving up the economic ladder during their lifetime while others are not. While there is much debate about the degree of opportunity in America, there is general agreement that there seem to be significant and worrying obstacles facing Americans starting out in households at the bottom end of the income spectrum.

But even for those starting at the bottom, lifetime trajectories vary widely. It appears that the probability of people's success, or lack thereof, in moving up the ladder is connected to whether they have been able to acquire three forms of "capital" during childhood and adulthood.[1]

This paper, in its entirety, can be found at
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The habit of regular saving is an important key to moving up the economic ladder. But while many lower-income households "invest" heavily in lottery tickets they save little or nothing. Noting the lessons of behavioral economics, and drawing from foreign and U.S. examples, CPI Director Stuart Butler and his co-authors explore the idea of "prize-linked savings" as a tool to create the saving habit.

- "Social capital" refers to the social networks surrounding an individual, including family and community, which can either enhance or detract from later success.

- "Human capital" involves not just intellectual ability and the acquisition of skills through education, but also the personal traits and attitudes that can be described as "character," "determination," or even "grit."

- "Financial capital" refers to savings and the acquisition of wealth.

This *Discussion Paper* focuses on financial capital and in particular on the problem of low savings and accumulated wealth among individuals starting out in lower-income households. It will also look at a potentially important approach to building a habit of savings among Americans in lower- and moderate-income households.

The savings rate in America has been in steady decline for three decades (with an upward spike in the last few years, linked to the recession), with roughly one-third of households having no savings at all. Savings is important for all households, of course. But while a low savings rate can slow the economic progress of middle- and upper-income families, the absence of savings can prove disastrous for lower-income households. That is because one function of savings is as a cushion for emergencies, such as losing a job or to cover an automobile repair in order to get to work. Savings also provides a buffer so someone can afford to take advantage of an opportunity, such as moving to another town to take a better job. The absence of such a cushion drives far too many households into the short-term credit market of payday lenders that charge annual interest rates of as much as 300 percent to 400 percent. Distressingly, payday lenders now outnumber McDonald's franchises in four of the five most populous states.[2]

But the systematic savings habit and wealth accumulation are critical as a foundation for future prosperity, enabling investments in one's education, entrepreneurship, and retirement. According to the Pew Foundation's Economic Mobility Project, 71 percent of children born to high-saving but low-income parents move up from the bottom income quintile over one generation; only 50 percent of children from similarly low-income households, with parents who do not save, do so.[3] Research indicates that if the habit of saving—even modest amounts—is formed early in life, it is connected to such important milestones as completing college.[4]

It is true that low-income households face institutional obstacles to saving, such as low levels of financial literacy, a lack of institutional access, financial institutions that see little commercial value in attracting small savers, and disincentives to save in means-tested programs.[5] But it is also true that while the culture of savings has evaporated in many low-income neighborhoods, the culture of gambling as a means of "investing" in the future remains strong. According to a commission of the Institute for American Values, American households with annual incomes below $12,400 allocate an average of $645 each year, or about 5 percent of their income, to their future.[6] But they do it by purchasing lottery tickets.

Fostering Savings

How might one increase the savings habit in moderate- and lower-income neighborhoods, and encourage households to redirect funds from

1. Stuart M. Butler, "Can the American Dream Be Saved?" *National Affairs,* No. 14 (Winter 2013), http://www.nationalaffairs.com/publications/detail/can-the-american-dream-be-saved (accessed May 21, 2013).
2. Commission on Thrift, "For a New Thrift: Confronting the Debt Culture," Institute for American Values, January 2008, http://www.newthrift.org/descriptions.htm (accessed March 8, 2013).
3. Reid Cramer, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado, "A Penny Saved Is Mobility Earned: Advancing Economic Mobility Through Savings," Pew Charitable Trusts, Economic Mobility Project, November 2009, http://www.pewtrusts.org/our_work_report_detail.aspx?id=56172 (accessed March 8, 2013).
4. William Elliot II, and Sondra Beverly, "The Role of Savings and Wealth in Reducing 'Wilt' between Expectations and College Attendance," Center for Social Development, January 2010, http://csd.wustl.edu/Publications/Documents/RB10-04.pdf (access March 8, 2013).
5. Peter Tufano and Daniel Schneider, "Supporting Saving by Low- and Moderate-Income Families," University of Wisconsin Institute for Research on Poverty, http://www.irp.wisc.edu/publications/focus/pdfs/foc271d.pdf (accessed March 8, 2013).
6. Commission on Thrift, "For a New Thrift," p. 28.

lotteries and other forms of gambling to systematic savings?

Creating Tools for Savings. One way, of course, is to develop savings instruments that are better designed for the small saver, and at the same time launch initiatives in communities to promote savings. A recent Center for Policy Innovation *Discussion Paper* summarized some innovative savings instruments.[7]

Building and fostering a savings habit is the preferred way to create a base of savings among lower-income Americans and so help them climb the ladder of economic opportunity.

Boosting Financial Literacy. Providing attractive savings instruments is only one element in the equation. Another is to educate Americans, especially in communities where savings rates are very low, about the importance of saving. Programs to promote financial literacy can help to do this. They are particularly important because America suffers from a high degree of financially illiteracy.[8]

Fortunately, many government and private institutions operate programs designed to raise financial literacy for Americans of all ages. One interesting example is "Thrift Week," which was declared by the State of Florida's Chief Financial Officer, Jeff Atwater. Florida chose the week of January 17–23, 2013, to coincide with Benjamin Franklin's birthday (January 19), because Franklin wrote on the positive effects and virtues of saving.[9] During the same time, the James Madison Institute, with funding from the John Templeton Foundation, offered a week-long learning module called "All About the Benjamins: Understanding the Value of Thrift."[10] The Girl Scouts of America also have a program called "Financial Empowerment," to encourage good financial behavior, and provide girls with a sense of earning and innovation through selling cookies as well as through online education.[11] As another example, a national group called Jump$tart—an "organization of organizations" at the national, state, and local level—seeks to educate young Americans about financial literacy through such approaches as training teachers.[12] Yet another example aimed at adults is EARN, a San Francisco-based organization geared toward providing low-income families with the tools and knowledge to build wealth and save for financial goals. The program began in 2001, and also has financial products for low-income families, such as matched savings accounts.[13]

Improved Tax and Regulatory Policies. It is also important to have sound tax and regulatory policies that are consistent with building savings and investment. That is why steps to remove the double taxation of savings are important. These can involve expanding the scope and availability of tax-deferred savings, such as 401(k) plans and education savings accounts (529 plans). Better still would be the combination of completely eliminating the double taxation of all savings and the encouragement of "auto-enrollment" savings plans—ideas contained in the Heritage Foundation's fiscal plan, *Saving the American Dream.*[14] While it is true that tax measures have their primary impact on taxpaying households

7. Diane R. Calmus, "Improving Economic Mobility through Increased Savings," Heritage Foundation Center for Policy Innovation *Discussion Paper* No. 6, December 21, 2012, http://www.heritage.org/research/reports/2012/12/improving-economic-mobility-through-increased-savings.
8. Kimberly Palmer, "The Financial Literacy Crisis," *U.S. News & World Report*, April 2, 2008, http://money.usnews.com/money/personal-finance/articles/2008/04/02/financial-literacy-101 (accessed May 21, 2013).
9. "Thrift Week: Celebrating a Practical and Spiritual Virtue," *Templeton Report*, February 6, 2013, http://www.templeton.org/templeton_report/20130206/ (accessed May 21, 2013).
10. Ibid.
11. Girl Scouts of America, "Financial Empowerment: K–12 Program," 2012, http://www.girlscouts.org/program/gs_cookies/pdf/2012_Financial_Empowerment_singlepages.pdf (accessed May 21, 2013).
12. Jump$tart Coalition for Personal Financial Literacy, "Jump$tart Activities and Initiatives," http://www.jumpstart.org/activities-and-initiatives.html (accessed May 21, 2013).
13. EARN, "About EARN," http://www.earn.org/about (accessed May 20, 2013).
14. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach (eds.), *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, http://www.savingthedream.org/about-the-plan/plan-details/SavAmerDream.pdf. See also J. D. Foster, "The New Flat Tax: Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 13, 2011, http://www.heritage.org/research/reports/2011/12/the-new-flat-tax-easy-as-one-two-three.

rather than on lower-income households, that is not the case with needed reforms to the growth of financial regulations in recent years, which have had the effect of making it even less likely that lower-income households will open modest bank accounts.

The Left Brain, Right Brain Balance. It is important to understand, however, that building a habit of savings, indeed any positive habit, requires an appeal to both sides of the brain. Programs that are educational and help provide consumers with the financial tools, information, and incentives for positive financial behavior, appeal to the left side of the brain. That side is associated with analytical, rational thinking. But to create a habit it is also necessary to appeal to the right side of the brain, which is associated with emotion. Successful advertisers understand this well, as do inspirational teachers and leaders.

So it is important to complement education and financial incentives and tools with approaches that have a more emotional appeal, and recognize that there are many Americans who are not inclined to take part in traditional programs designed to build a savings habit. For that reason another promising approach, in parallel with "left brain" initiatives and programs, recognizes that the impulse to gamble or play the lottery is very strong. So, for many Americans a more effective way of creating a culture of savings is to do so indirectly, by instruments that actually channel the instinct to gamble into systematic savings This approach, known as "prize-linked savings" utilizes the techniques of behavioral economics to turn a behavior pattern into a savings habit that enhances the economic mobility of a household.

The Idea of Prize-Linked Savings

Reduced to its essence, under prize-linked savings (PLS), the saver receives little or no interest and dividends on his savings. Instead, the earnings from the investment are pooled and distributed as "prizes" in periodic drawings, typically with a few "grand prizes" and a large number of smaller prizes. Thus the inducement to save is not to earn a modest return on capital (very modest indeed with today's low interest rates) but to have the chance of winning big while preserving capital—unlike in a lottery.

Not Gambling. It is important to note that while the PLS approach appeals to the thrill associated with gambling, and on the surface may appear to the savers to be a form of gambling, it is not actually gambling. The true gambler risks his "stake" for the chance to win a large amount. If he loses, his money is gone. In prize-linked savings the stake is not at risk (even as it is, say, when investing in stocks). While the PLS saver can increase his holdings through monetary prizes, even the "loser" in PLS ends up with accumulated savings. No wonder that one of the first major examples of PLS, launched many years ago in the United Kingdom, was described as "savings with a thrill."

PLS Accounts in the U.S. and Other Countries. Prize-linked savings products have been successful internationally and are being experimented with on the state level in the United States. Internationally, Britain's premium bond program attracts roughly one-third of all U.K. citizens, with nearly $70 billion in total holdings.[15] PLS programs also exist in Sweden, and a number of Latin American and Middle Eastern countries.[16]

Meanwhile private PLS accounts do exist in the U.S., though as noted below, state and federal laws have unfortunately impeded their development. The accounts include "traditional" PLS programs in credit unions, known as Save to Win™, offered in Michigan, Nebraska, North Carolina, and Washington. Meanwhile some states, including Connecticut, Iowa, Maryland, Maine, Mississippi, New York, and Rhode Island, either permit limited credit union accounts (Rhode Island) or are considering legislation to permit some form of PLS accounts. In addition, some highly innovative variants on the basic approach, such as SaveUp™, have appeared. SaveUp provides a sweepstakes overlay to any household's savings or debt-reduction program, in which savers keep their regular interest earnings but have the chance to win prizes through an advertiser-funded sweepstakes.

15. "Are Premium Bonds Really Worth It?" *Moneywise*, June 21, 2012, http://www.moneywise.co.uk/banking-saving/savings-accounts-isas/are-premium-bonds-really-good-deal (accessed March 15, 2013).

16. Peter Tufano, Nick Mayard, and Jan-Emmanuel De Neve, "Consumer Demand for Prize-Linked Savings: A Preliminary Analysis," Doorways to Dreams Fund, 2008, http://www.d2dfund.org/files/publications/consumer-demand-prize-linked-savings.pdf (accessed March 8, 2013).

Prize-linked savings products can be developed in various ways, and there are regulatory and other obstacles that could be removed to permit wide use of PLS to promote savings. This *Discussion Paper* examines four principal options for expanding this form of savings vehicle: 1) private institutions on a state-by-state basis, 2) a state sponsored approach connected with the state lottery, 3) private national systems using sweepstakes, and 4) national bond programs.

Prize-linked savings accounts give consumers a chance to win a prize while protecting the principal initially invested. So the concept applies some of the "right brain" behavioral economics of the lottery to the act of savings. In contrast to the patience and discipline needed to save in the traditional manner, the quasi-lottery feature of PLS savings provides the opportunity for short-term gratification alongside the act of saving by offering a chance at a large prize in place of interest (which in today's economy is small and thus not much of an inducement).

A lottery-style prize system is appealing as a mechanism to encourage savings. For one thing, traditional lotteries attract a disproportionate amount of financially vulnerable individuals who end up losing the money they put at risk.[17] For these individuals, prize-linked savings retains the short-term gratification of the lottery to attract these non-savers and turn them into savers. For another thing, the thrill associated with winning a prize appears to be enough to induce many low- and moderate-income non-saving households—and who do not currently play the lottery—to take the first important step to open accounts with financial institutions. In addition, the strategy of fostering PLS as a device to boost savings has involved removing restrictions with unintended effects on financial institutions, and allowing states to create innovative new savings tools for households.

Options for Expanding Prize-Linked Savings

Prize-linked savings is not a novel idea. As noted, the concept successfully encourages bond sales in many European countries, and is a feature of credit unions in some U.S. states. An expansion of prize-linked savings in the U.S. could happen in a number of ways. Because of existing law, different options would require varying levels of government action to provide institutions with the freedom to offer such accounts, while some options would require no action.

Option 1: Prize-Linked Savings in Private Financial Institutions at the State Level. *Example: Save to Win.* In 2009, a group of Michigan's credit unions launched Save to Win, a prize-linked savings program designed to encourage consumers of all income levels to save. The success of Michigan's program served as a model for the start of Nebraska's Save to Win program in 2012, and other statewide credit union programs in 2013.

In the Save to Win format, participants receive one chance in monthly raffles, and a grand-prize drawing for every $25 deposited into a 12-month balance-building certificate of deposit (CD).[18] The low-entry commitment makes the program accessible to lower-income households, and by limiting each participant to 10 entries per a month (or $250) everyone has a reasonable chance to win.[19] For example, a participant could deposit a $150 into his CD account, receiving six chances to win one of 50 to 75 monthly prizes totaling between $2,500 and $3,750, and six annual grand prizes of $10,000.[20] Additionally, Save to Win participants may withdraw money for a fee before the maturity date of their CD, and the product offers interest on deposits. These attributes make the product easily accessible and relatively liquid, and allow participants to grow their accounts in a conventional manner.

The success of Save to Win in Michigan and Nebraska has been measured by the Doorways to Dreams (D2D) Fund, a non-profit committed to the development of innovative financial products.[21] The studies measured Save to Win on three relevant metrics: 1) increased access, 2) continued participation, and 3) service to financially vulnerable participants.

Access to the program is important to attracting new accountholders. Michigan's Save to Win

17. Commission on Thrift, "For a New Thrift."
18. Save to Win Michigan, "How it Works," http://mi.savetowin.org/How_It_Works_17.html (accessed February 11, 2013).
19. Ibid.
20. Ibid.
21. Doorways to Dreams, "Playing the Savings Games: A Prize-Linked Savings Report," 2012, http://www.d2dfund.org/files/publications/PlayingTSG_Report_2012_SinglePgs.pdf (accessed January 22, 2013).

Table 1

Snapshot of Accountholders in Michigan (2011) and Nebraska (2012)[26]

Financially Vulnerable Group	Definition	Percent in Michigan (2011)	Percent in Nebraska (2012)
Non-Savers	Individuals who reported that they were not regular savers before opening their Save to Win account	45%	43%
Asset Poor	Individuals with $5,000 or less in financial assets (excluding home equity)	32%	32%
Low-Moderate Income	Individuals with household income less than $40,000	39%	31%
Single with Dependents	Single parents with one or more children	12%	9%

program has increased access since 2009, with eight participating credit unions, to 58 in 2012.[22] Nebraska's program began in 2012 and has 11 participating credit unions in 2013.[23]

Continued participation reflects consumer satisfaction and the product's effectiveness in creating savings habits. The certificate of deposit has a 12-month term; therefore, for continued participation or "rollover," the accountholder must decide to reinvest in the product. Michigan's Save to Win program had a healthy 54 percent of accountholders rolling over from 2009 to 2010, and 64 percent from 2010 to 2011.[24] In Nebraska, accountholders stayed engaged with the product, with more than half making at least one deposit a month, and 10 percent depositing the maximum amount of $250 each month.[25] This suggests that the Save to Win prize-linked-savings certificate of deposit is being used both for short-term and emergency savings as well as for longer-term savings.

Save to Win also successfully appeals to "financially vulnerable individuals" (see definitions in Table 1). Participation by these groups is important to increasing the financial capital and economic mobility of those at the bottom. A survey by D2D shows that the program successfully appealed to financially vulnerable individuals.

Save to Win not only appears attractive to financially vulnerable individuals, but appears to have begun to create a habit of savings. Significantly, in Michigan participants identified as financially vulnerable were just as likely to roll over their accounts as their more financially secure counterparts. Save to Win also helped these individuals grow their savings over the year, according to the D2D survey.

The Save to Win program indicates that prize-linked savings programs can successfully attract all income levels and situations, including those identified as financially vulnerable. The program's success

22. Center for Financial Services Innovation, "Save to Win: The Success of Prize-Linked Savings," 2012, http://www.cfsinnovation.com/system/files/D2D%20Fund_Impact_December2012.pdf (accessed March 18, 2013).

23. Doorways to Dreams, "Building Financial Security Through Fun—Findings from the Save to Win Expansion," April 2013, p. 2, http://www.d2dfund.org/files/publications/D2D_SaveToWinNebraska_Web.pdf (accessed May 21, 2013).

24. Doorways to Dreams, "Playing the Savings Games," p. 8.

also makes a strong argument for prize-linked savings operated by private financial institutions. However, in order for prize-linked savings programs to become more prevalent in private financial institutions, such as banks and credit unions, federal and state laws need to be amended.

Obstacles and Possibilities. While private PLS programs like Save to Win look very promising, they do face several federal and state restrictions that have hampered similar approaches taking root across the country. Action to remove or ease these restrictions would be needed to help achieve the goal of boosting savings among non-savers and generally among lower-income households.

Federal Laws. PLS approaches face obstacles that are the largely unintended byproduct of past federal action intended to stop banks from being used as vehicles for traditional gambling. Federal laws directly restricting the participation of banks in prize-linked savings were part of amendments added in 1967 to the National Bank Act, the Federal Reserve Act, the Federal Deposit Insurance Act, and the Loan Insurance Act.[28] The restriction on prize-linked savings is an unintended effect of amendments that were put in place due to concerns over state lottery tickets being sold in banks. In addition to these direct restrictions on prize-linked savings, federal criminal law contains general gambling restrictions under the Crimes Control Act, the Travel Act, and the Federal Organized Crime Act. These restrictions were aimed at organized crime, but could be violated by a local bank trying to attract new customers with a prize-linked savings product.

These unfortunate restrictions could be addressed by narrowly tailored amendments to these laws to permit savings-promotion raffles. Another approach would be to leave these laws in place, but redesign prize-linked savings products as sweepstakes, which are legal under federal law and in all 50 states. In contrast to a raffle, a sweepstakes does not require a purchase or payment, and prizes are financed typically by advertisers and not by pooled interest earnings. Currently, this format is used by SaveUp (see below), a national online financial rewards program that launched toward the end of 2011, and also by D2D's SaveYourRefund, which uses a sweepstake to encourage taxpayers receiving a tax refund to save the money.[29]

Table 2

Michigan's 2011 Annual Average End Balance Growth for Financially Vulnerable Accountholders[27]

Vulnerable Group	Annual Growth in Average Account Balance
Non-Savers	38%
Asset Poor	31%
Low-Moderate Income	34%
Single with Dependents	7%

State Laws. The direct restrictions on prize-linked savings do not apply to federal or state chartered credit unions; therefore, depending on state laws, credit unions may run prize-linked savings programs such as Save to Win in Nebraska and Michigan. Since the success of Michigan's program, six states, including Nebraska, have amended their laws to allow prize-linked savings, and four other states may already allow credit unions to operate these programs.[30] State law plays a major role in the future of prize-linked savings through private institutions because states have the power and discretion to determine gambling regulations within their territories. This is reflected in the various gambling products offered in different states, such as lotteries

25. Doorways to Dreams, "Building Financial Security Through Fun," p. 3.
26. Ibid.
27. Doorways to Dreams, "Playing the Savings Games," p. 9.
28. Senate Report: P.L. 90–203, "Banks—Savings and Loan Associations—Gambling Activity," November 6, 1967.
29. SaveYourRefund, https://www.saveyourrefund.com/ (accessed May 21, 2013).
30. Doorways to Dreams, "Legislative Success," http://www.d2dfund.org/Legislative_Success (accessed May 21, 2013).

and casinos. Therefore, the great majority of states would need to amend their laws to enable prize-linked savings approaches to be available through credit unions throughout the United States.

The Politics. Despite these successes, not all prize-linked savings amendment proposals have passed state legislatures. For example, in Iowa, a bill to amend state law failed. The main concern was that credit unions would gain a competitive advantage over banks, which were not included in the proposed state amendment because federal law restricts financial institutions, with the exception of credit unions, from participating in a raffle or lottery.[31]

Leveling the playing field by allowing prize-linked savings to be operated through private financial institutions would permit competition between products and stimulate the creation of new products for consumers. It would also foster greater innovation and competition by allowing financial institutions to offer more attractive products to Americans who do not currently save.

Option 2: Offering Prize-Linked Savings Alongside State Lotteries. Another possible format for prize-linked savings could in principle be to offer products through existing state lottery systems with their existing networks of retail outlets. This might be less of a legislative challenge in some states than empowering private financial institutions to offer PLS accounts because state lotteries already have legal authority to offer games of chance in their respective jurisdictions, and through groups of states similar to the structure of the Powerball. The format may appear promising since lotteries are so well established and have an existing sales infrastructure. State lotteries now have over 200,000 retail locations in 43 states and the District of Columbia.[32]

A state could also consider a PLS program as a parallel to the traditional state lottery, even though the PLS investor is only loaning money to the state, not parting with it forever in return for a lottery ticket.[33] That is because the PLS program would in this case be a version of state bond programs designed for longer-term debt-financed capital investment, rather than money for current spending. The PLS program thus would have the advantage to the state of attracting longer-term investors from households that would not normally purchase bonds.

The infrastructure and retail footprint of the lottery presents a unique opportunity. Lotteries have a larger footprint than financial institutions across 44 jurisdictions, and are in locations that are more accessible to low-income households.[34] For example, local corner stores and 7-Elevens routinely offer lottery tickets, making a prize-linked savings product in this format available to those who may be underserved by financial institutions.

Similar to the private Save to Win model, a participant in a state PLS program would purchase a savings product, such as a bond, and receive with it a chance in a raffle rather than obtain interest. The winnings would be funded by interest normally returned to a traditional state bond. The saver might have multiple opportunities to win, and at the end of the bond's holding period would receive back the initial investment.

Obstacles and Possibilities. While the idea of a state PLS program alongside the state lottery is attractive, there are obstacles and concerns—not all of them regulatory. That is perhaps why, in contrast to credit union PLS approaches, there has yet to be a state pilot program.

There are significant operational challenges that might be very difficult to overcome using the existing state lottery system. While existing state lotteries are expert at collecting money and sending it to a central location, for instance, they do not have the ability to open accounts, provide necessary disclosures, or collect the essential information needed from every customer who might use this method to save. Most lottery outlets are located in convenience stores or retail establishments where collecting the

31. Victoria Finkle, "Savings Raffles Gain Momentum, as Bank Seeks Entrance," *American Banker*, September 6, 2012, http://blogs.cfed.org/cfed_news_clips/2012/09/savings-raffles-gain-momentum.html (accessed May 21, 2013).

32. Doorways to Dreams, "Creating Opportunities through the State Lottery," February 2013, p. 3, http://www.d2dfund.org/files/publications/A%20Winning%20Proposition-%20Creating%20Economic%20Opportunities%20Through%20the%20State%20Lottery.pdf (accessed January 22, 2013).

33. Doorways to Dreams, "A Winning Proposition: Creating Economic Opportunities Through the State Lottery," February 12, 2013, http://www.d2dfund.org/research_publications/winning_proposition_creating_economic_opportunities_through_state_lottery (accessed May 21, 2013).

34. Ibid.

necessary information might delay the store's ability to check out customers who merely wish to buy items. However, continuing technical developments in smart cards may address these practical concerns.

Another issue is that any savings product would be in competition with the original games, so state lottery authorities may not have much incentive to promote PLS products. On the other hand, the bond-like approach would generate finance for longer-term capital projects.

A criticism of a savings program alongside a lottery may be that the savings product would be too similar to a traditional lottery game. Without a clear connection to a financial institution, and without a strong emphasis on savings, the product might be viewed simply as another gambling mechanism rather than a true savings product. However, considering that low-income households represent a disproportionate amount of lottery participants, a savings product that feels very similar to traditional games would still be a practical step in the right direction by boosting savings among financially vulnerable individuals.[35]

Still, the intermingling of savings and lottery tickets through the same retail outlets does raise concerns that fostering the habit of savings, as distinct from gambling, might be more difficult to accomplish. Britain's Premium Bond system (see below) preceded its National Lottery by almost four decades and so was able to build a distinctive profile and savings culture. It would be harder to achieve a similar and distinct savings profile in the United States amid the apparatus of the Powerball culture.

Option 3: National Private Sweepstakes. *Example: SaveUp.* Another promising design for a prize-linked savings product is the sweepstake. The sweepstakes format has already been used widely to encourage the consumption of certain products. For example, McDonald's famous "Monopoly Game" is a national sweepstakes.

There are very important differences between a sweepstake and a lottery, or the PLS credit union programs discussed earlier. For one thing, sweepstakes prizes are not financed by accrued interest or investment earnings but by advertisers. For another, a sweepstake does not require payment to the prize-issuing organization for a chance to win the prize and is legal in all 50 states.[36]

The idea of linking a sweepstake to a saving plan is that playing the sweepstake could be an inducement to save even though the sweepstake does not directly take in money, unlike a lottery.

A bold example of this model is SaveUp, which uses sweepstakes law to register participants for a free online rewards program launched toward the end of 2011. SaveUp operates as a rewards program for positive financial behavior including saving and reducing indebtedness. The SaveUp website can link to accounts at more than 18,000 financial institutions, and with the explicit permission of participants it can track the participants' habits and money through secure monitoring linked to their credit card or other financial accounts (much as many Americans use applications like Mint.com to track their accounts). If the SaveUp enrollee reduces his indebtedness, or builds up savings, he is rewarded with "credits" that can be used to play for prizes in the SaveUp sweepstake. For example, a SaveUp participant receives one credit for every dollar saved. A participant may also receive credits by, among other things, filling out a profile, watching a financial education video, or completing various challenges. These credits are redeemed for plays, which are chances to win a prize by playing instant games or participating in lottery-like drawings. The prizes range from the modest—such as $100 to help pay off a loan—to the considerable, such as a $50,000 automobile.

The business economics of SaveUp centers on advertising. Advertisers and sponsors pay to promote their products and services via prizes. SaveUp, then, essentially, insures itself against the possibility that an unexpectedly high number of individuals will win large prizes. So in practice, the advertising dollars provided to SaveUp are used to offset the cost of the insurance premiums. SaveUp's games simulate the appeal of instant games and raffles—allowing the participant to choose the most appealing game to them. But gaining credits to access the SaveUp sweepstake and play for prizes requires the players to increase their personal savings or reduce indebtedness in their own monitored account in their own financial institution. It is a classic example of the

35. Commission on Thrift, "For a New Thrift."

36. SaveUp, "SaveUp FAQ," https://www.saveup.com/about/faq (accessed March 18, 2013).

application of behavioral economics to the savings process.

The appeal and early success of the strategy is reflected in the data. According to SaveUp, about 40 percent of those who encounter the site sign up, and 50 percent of those registered are active, with 20 percent being daily users of the site.[37] An independent study by the Filene Research Institute of 12 credit unions offering SaveUp as a pilot program found that over half of the participants reported greater financial awareness by participating, with the median member using the product three to five times a week.[38] To date, SaveUp users have deposited over $383 million to savings instruments ranging from savings accounts to 401(k) plans, and over $269 million in the form of debt-reduction payments. SaveUp reports that it is not able to identify with certainty what amount of this is incremental or improved behavior, or simple tracking and rewarding behavior that users would have had without SaveUp. Still, in the Filene study, 52 percent of SaveUp users reported saving more or reducing debt faster. Further analysis of the new program is planned and will give a fuller sense of its overall impact on saving.

Obstacles and Possibilities. There are actually no legal obstacles to national sweepstakes versions of prize-linked savings, because sweepstakes in which a player is not required to purchase something as a condition of playing are legal throughout the United States. Since the SaveUp example involves no purchase, it satisfies the sweepstake requirement. The possibilities in this option seem bound only by business creativity and information security.

The monitoring of accounts raises concerns about financial information security; thus, the quality of a sweepstake company's security systems would be an issue, and so there is a danger that criminals could trick individuals and gain access to their finances. Still, account-monitoring web applications are widely used, and account protection is a general danger in web-based commerce and not unique to sweepstakes versions of PLS. So the reputation and security systems of a program are important.

An intriguing possibility for the future is to combine the sweepstakes model with more "hands on" approaches to improving financial literacy and encouraging groups of households in a community to save. In this way the elements of the thrill of PLS, better understanding of savings and financial institutions, and community peer reinforcement might combine to expand saving significantly. Indeed, SaveUp has entered into an experiment with the previously mentioned EARN and Citibank to design a sweepstakes feature to supplement EARN's existing projects to build a savings habit. Early results are very promising, with strong increases in funds deposited by EARN's savers when introduced to the SaveUp feature.

Option 4: National Bond Programs. *Example: Premium Bonds.* The federal government could in principle launch a national PLS bond program through the Department of the Treasury. The program could, among other things, restore the retail popularity of U.S. savings bonds.

An example of a national PLS bond is the U.K.'s premium bonds program, which began in 1957 to encourage savings and fight inflation after WWII.[39] Introduced to Britons as "savings with a thrill," premium bonds combine a lottery format with savings by pooling interest that otherwise would be paid on a bond and distributing it in a range of cash prizes. The program structure is simple and easy to understand: An individual invests at least £100 (about $150) and a maximum of £30,000 ($45,000) in the premium bonds; the interest on the bonds is pooled together and then raffled.[40] The raffle prizes range from £25 to £1 million.[41] An additional incentive to participate is that the winning bond holders

37. Matt Davis, "SaveUp: Making Positive Financial Behavior Fun," Filene Research Institute and SaveUp, October 2012, http://s3.amazonaws.com/s3.saveup.com/press-releases/2012-10-16-filene-saveup-pilot-report-final.pdf (accessed March 12, 2013).

38. Ibid.

39. Sebastian Lobe and Alexander Hölzl, "Why are British Premium Bonds so Successful? The Effect of Saving With a Thrill," Social Science Research Network, 2007, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=992794 (accessed May 21, 2013).

40. Peter Tufano, "Saving Whilst Gambling: An Empirical Analysis of U.K. Premium Bonds," *American Economic Review*, Vol. 98, No. 2 (May 2008), pp. 321–326.

41. "Are Premium Bonds Really a Good Deal?" *Moneywise*, June 21, 2012, http://www.moneywise.co.uk/banking-saving/savings-accounts-isas/are-premium-bonds-really-good-deal (accessed March 19, 2013).

enjoy their prizes free of tax (the investment is in after-tax money).[42] The program's simple design, investment liquidity, and low barrier of entry has made the premium bonds program attractive to a variety of participants, showing that it serves a dual function as both an investment tool and lottery game.[43] The premium bonds program runs alongside Britain's National Lottery, a traditional form of lottery.

The premium bonds' combination of "thrill" and investment has made them a remarkably popular investment. According to a 2006 report by National Savings and Investments, the government agency running the premium bonds program, 23 million British citizens at that time were premium bond holders, representing almost 40 percent of the country.[44] The composition of bond holders also reflects a diverse group of investors. As of November 2006, the average bond holder had invested £1,400, 6.5 percent of holders had more than £5,000, and 1.3 percent has invested the maximum of £30,000.[45] Additionally, a 2008 study on premium bonds found a negative correlation between "income less consumption" suggesting that premium bonds may be attractive to non-savers.[46]

The premium bond program has continued to increase in popularity and holdings, even as savings generally in the U.K. has declined.[47] From 2011 to 2012, premium bond holdings increased by over a billion pounds.[48] This is a fraction of the longer trend, which saw an increase in holdings from £4 billion in 1998 to £44 billion in 2012.[49]

Example: Sweden's Lottery Bonds. Another example of a national bond program is the Swedish lottery bond program, which began in 1918 to raise money from domestic investors after WWI.[50] The lottery bond is a retail-bond program, which allows the Swedish government to raise funds at slightly more favorable terms.[51] From 2008 to 2012, the lottery bond program saved the Swedish government SEK703 million (about $108 million).[52] In 2012, the retail-bond program, which includes lottery bonds and National Debt Savings (t-bills), accounted for 4.3 percent of Sweden's debt.[53] Unlike the U.K.'s premium bond, which is continual, the Swedish lottery bonds have a set timeline to maturity, at which point the holder will recover his principal.[54] The Swedish lottery bond is unique because the coupon distribution is unknown, and therefore the total return is determined by lottery drawings throughout the maturity of the bond.[55]

The typical Swedish lottery bond investor is an individual or small household, 60 percent of whom did not live in a large Swedish city, and 78 percent of whom are age 50 or older.[56] In addition, 45 percent to 50 percent of current investors had previously held lottery bonds, suggesting that the program is very "sticky."[57] A similar lottery bond program in the U.S.

42. Ibid.
43. Lobe and Hölzl. "Why are British Premium Bonds so Successful?"
44. National Savings and Investment, "A Short History of Premium Bonds," October 2006, http://www.nsandi.com/files/asset/pdf/history_pb.pdf (accessed March 19, 2013).
45. Ibid.
46. Tufano, "Saving Whilst Gambling."
47. "Are Premium Bonds Really a Good Deal?" *Moneywise.*
48. National Savings and Investment, *National Savings & Investment Annual Report and Accounts and Product Accounts 2011–2012*, October 2006, p. 85, http://www.official-documents.gov.uk/document/hc1213/hc00/0061/0061.pdf (accessed March 19, 2013).
49. Ibid., and "Are Premium Bonds Really a Good Deal?" *Moneywise*.
50. George Chacko, Peter Hecht, Vincent Dessain, and Anders Sjoman, "Swedish Lottery Bonds," *Harvard Business Review*, January 8, 2004.
51. Swedish National Debt Office, "Basis for Evaluation of Central Government Debt Management: 2012," February 22, 2013, https://www.riksgalden.se/Dokument_eng/debt/borrowing/Utv_2012_eng.pdf (accessed March 14, 2013).
52. Ibid., p. 18.
53. Ibid.
54. Chacko, Hecht, Dessain, and Sjoman, "Swedish Lottery Bonds."
55. Ibid.
56. Ibid.
57. Ibid.

could possibly be used to increase savings among households that are currently less inclined to save, while lowering the cost of debt.

Obstacles and Possibilities. An American PLS bond modeled on premium bonds would be fairly simple to structure and offer through the U.S. Treasury and marketed alongside existing federal bonds. It could take any one of several forms, but the most promising would be very similar to existing Treasury programs, such as the I-Bond, which are already aimed at small savers. Although a prize-linked bond would result in many permanently small accounts, it could be structured cost-effectively using existing technology and capacity.

A PLS product could be offered for sale online, as well as through existing depository institutions, postal facilities, and other types of retail outlets. In return for handling the sales of PLS bonds, retail outlets could receive a small fee or credit against their federal business taxes designed to cover the costs they incur. Depository institutions could receive credit toward their Community Reinvestment Act (CRA) requirements for steps to make premium bond–style products, as well as other financial accounts, more available. The CRA requires financial institutions to make investments in low-income neighborhoods and, among other things, has been faulted for overly encouraging real estate development rather than building financial infrastructure and financial literacy and fostering household accounts.[58]

Rather than structuring the bonds as specific instruments with both a fixed denomination and maturity date, PLS bonds would be more useful and attractive to savers if they were structured as accounts where the saver could add balances at any time. Like the British system, purchasers could receive one chance for every full multiple of, say, $25 in the account by a specific date before a drawing. Only amounts on deposit for the entire quarter would be eligible to be counted when assigning the number of chances an individual would receive for each drawing.

In this vision of national PLS bonds, a drawing would be held on a regular schedule, perhaps quarterly, with winners receiving their prizes either through a check mailed to them or deposited on a special debit card that could be mailed to them at the time of their first win. Winners would also have the option of reinvesting their winnings to improve their chances of winning a bigger prize in the next drawing.

To be attractive, experience suggests prizes likely would have to include at least one attention-grabbing major prize and a large number of smaller incentive prizes designed to encourage savers to feel "winners" and continue to participate. Initially, the size of the big prize should probably be set at a specific amount. However, as more people participate and the pool grew, the major prize could increase in much the same way that conventional lottery prizes depend on the size of the pool.

Proceeds from the sales of these bonds would be deposited with the Treasury and invested in higher-yield Treasury securities with an appropriate market interest rate. A portion of the quarterly earnings of this pool could go to the prizes, with the remainder perhaps going to pay a modest interest rate on savings deposits. As a practical matter, the residual interest rate could be set semi-annually, similar to the I-Bond rate structure.

An unconventional feature of such an approach is that it would create prize-linked accounts rather than bonds that are paid off on a specific schedule. There would be two reasons for this. First, most saving has been shown to be the result of a habit rather than an impulse action. The structure outlined encourages savers to develop good financial practices, while the large number of outlets would enable them to save windfalls and also invest on impulse. To the extent that there were concerns about the U.S. Treasury competing with private financial institutions, a maximum limit could be imposed (as in the U.K.) with larger accounts being rolled over to another convenient depository, or the saver being limited to a maximum number of chances regardless of account size. Perhaps working with neighborhood-based institutions, new participants could be encouraged to undertake short financial literacy training sessions on such topics as budgeting.

Second, the account structure discussed would encourage small savers to build an asset or to save for a specific goal. Numerous studies have found that building an asset, even of a comparatively small size, changes behavior and the account owner's outlook

58. Janis Bowdler, "Harnessing the Power of the Community Reinvestment Act to Connect Latinos to Banking Services," National Council of La Raza, August 6, 2010, http://www.ots.treas.gov/_files/comments/5933e28d-e997-36e7-af7b-24daa17f0676.pdf (accessed May 21, 2013).

on the future. A federal PLS bond account would also provide an opportunity to encourage small savers to develop good financial habits and start to build an asset, similar to the themes used for traditional U.S. savings bonds.

Conclusion

Building up savings, and a strong savings habit, is crucial to a person's chances of moving up the economic ladder during his lifetime. So the spreading absence of saving in lower-income and even many moderate-income communities is a major obstacle to achieving the American Dream for Americans from these communities.

To strengthen economic opportunity in America it is necessary to revive the habit of saving. While financial education, readily available savings opportunities, and economic incentives are important to achieving that goal, it is also important to add an element of excitement to saving if it is to be appealing to many Americans. Today, such excitement tends to be limited to lotteries and games of chance that typically impoverish households and neighborhoods.

Prize-linked savings are a tested and intriguing device to divert an impulse for a thrill into a device that builds a positive habit and moves toward the goal of economic opportunity and mobility. As such, policymakers, financial institutions, social and business entrepreneurs, and community organizations should seriously examine steps to remove barriers to this important financial instrument.

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