



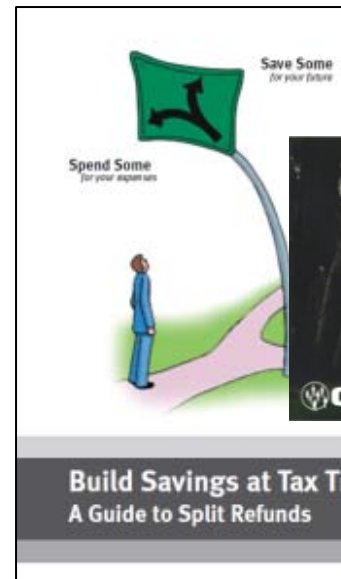
Prize-Linked Savings

Washington Asset Building Conference

June 21, 2011

Doorways to Dreams (D2D) Fund

- ▶ Founded in 2000 by Harvard Business School Professor & Sr. Associate Dean, Peter Tufano
- ▶ Non-Profit 501(c)3 headquartered in Roxbury, MA
- ▶ **Mission:** Strengthens the financial opportunity and security of low and moderate income consumers by innovating, incubating and stimulating new financial products and policies.



Build Savings at Tax Time
A Guide to Split Refunds



Can Saving be Fun?

Quick Poll – What's More Exciting?



322-21
1610

1Your
First
Bank *Anytown, USA*

DATE _____

SIGN HERE IN TELLER'S PRESENCE
FOR CASH RECEIVED

DEPOSIT SLIP

:9124 6027 486586519 30937 3620000 108

| | | | |
|-----------------------|----------|--|--|
| CASH | CURRENCY | | |
| | COINS | | |
| LIST CHECKS SINGLY | | | |
| TOTAL FROM OTHER SIDE | | | |
| TOTAL | | | |
| LESS CASH RECEIVED | | | |
| NET DEPOSIT | | | |

Gaming & Saving?

38% of those with incomes below \$25,000 think that winning the lottery represents the most practical way for them to accumulate several hundred thousand dollars.

- 2006 Consumer Federation of America study*

Lottery players may seek:

- 1) entertainment
- 2) financial planning / wealth building

Can we strengthen #2 without losing #1?

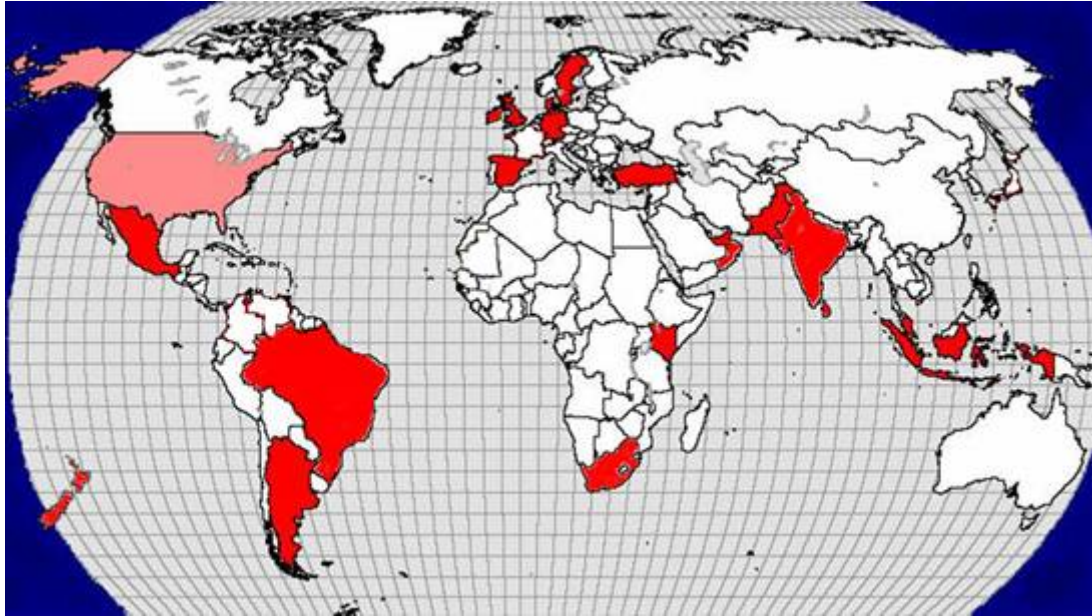
* <http://www.commondreams.org/news2006/0109-05.htm>

How about “Prize-Linked Savings”?

- Concept:
 - Earn chance(s) to win by saving
- Why?
 - Make saving fun, exciting, interesting
 - Provide incentive to save
 - There are no losers – all deposits and interest are safe
- Consider:
 - \$60 *billion* in US lottery sales (2008)*
 - Average of \$515 per household
 - 80% of gambling revenue from HH w/ income <\$50k**

International Precedent

- Argentina
- Brazil
- Denmark
- Germany
- Great Britain
- Kenya
- India
- Indonesia
- Ireland
- Mexico



- New Zealand
- Oman
- Pakistan
- South Africa
- Spain
- Sri Lanka
- Sweden
- Turkey
- United Arab Emirates

Noteworthy:

- \$47B in UK “Premium Bonds” outstanding, 23MM holders
- Swedish “Lottery Bonds” program est. 1918
- Prizes range: \$1.7M tax free (UK), Mercedes (Oman), Motorcycle (Pakistan), DVDs (Mexico)

PLS Momentum Around the US

- Clear “Savings Promotion Raffle” provisions:
 - + Michigan
 - + Maine (passed in 2010)
 - + Rhode Island (passed in 2010)
 - + Maryland (passed in 2010)
 - + Nebraska (passed in 2011)
 - + Washington (passed in 2011)
 - + North Carolina (passed in 2011)
- Existing laws that may allow for credit unions to offer a PLS-type product:
 - + Alaska
 - + Arizona
 - + Georgia
 - + New Mexico
- Considering PLS/Savings Promotion Raffle Legislation
 - + Minnesota

A Test: **SAVE TO WIN**

– Test concept in the US

- + 8 credit unions in the state of Michigan
- + \$100,000 grand prize
- + \$3.3K / month in smaller prizes
- + \$25 deposit in 1 year Share Cert. = 1 chance to win
- + Max = 10 chances / month (120 per year)



Product: Share Certificate

- 12-month share certificate
 - + Opening deposit: \$25
 - + Unlimited deposits
 - + One withdrawal allowed in 12-month period
 - \$25 penalty
 - + Interest rate set individually by each credit union (2009 ranges from 1-1.5%)
 - + Accountholder requirements:
 - Member in good standing, with traditional share account
 - 18 years old or older
 - Resident of Michigan
 - + Save to Win account must be open and active to win

Savings Raffle

- Every \$25 deposit into Save To Win certificate is a chance to win
 - + Maximum of 10 entries earned per month (\$250)
 - + Accountholder could deposit as many times and as much money as possible, but will only earn maximum of 10 entries per month or 120 entries for a year
- \$100,000 guaranteed prize
 - + First grand prize awarded February 2010
- Each credit union awarded monthly prizes to its Save to Win certificate holders
 - + January, February, April, May, July, August, October, November
 - Two \$100 prizes, Three \$50 prizes, Two \$25 prizes, One \$15 prize
 - + March, June, September, December
 - One \$400 prize, One \$15 prize
- Third-party vendor administers all prize drawings

Save to Win Results (2009)

– Sales

- 11,600 accounts opened
- \$8.6MM deposits
- Avg account - \$734

– Survey findings (n=~6k / 50%+)

- Household income < \$60K: **67%**
 - Less than \$40k: **44%**
 - Less than \$20k: **16%**
- < \$2k in financial assets: **28%**
- Less than a college education: **65%**
- Racial / ethnic minority: **27%**



BILLIE S., SOUTH LAKE MICHIGAN

Findings

- A strong demand for STW accounts exists across credit union members.
- Saving balances grew over the year, although monthly deposit amounts trend downwards.
- The product attracts financially vulnerable individuals and positively impacts their saving levels.
- The product features of the STW certificate help attract first-time product users.
- Monthly lottery prizes have the potential to motivate individuals to save consistently.

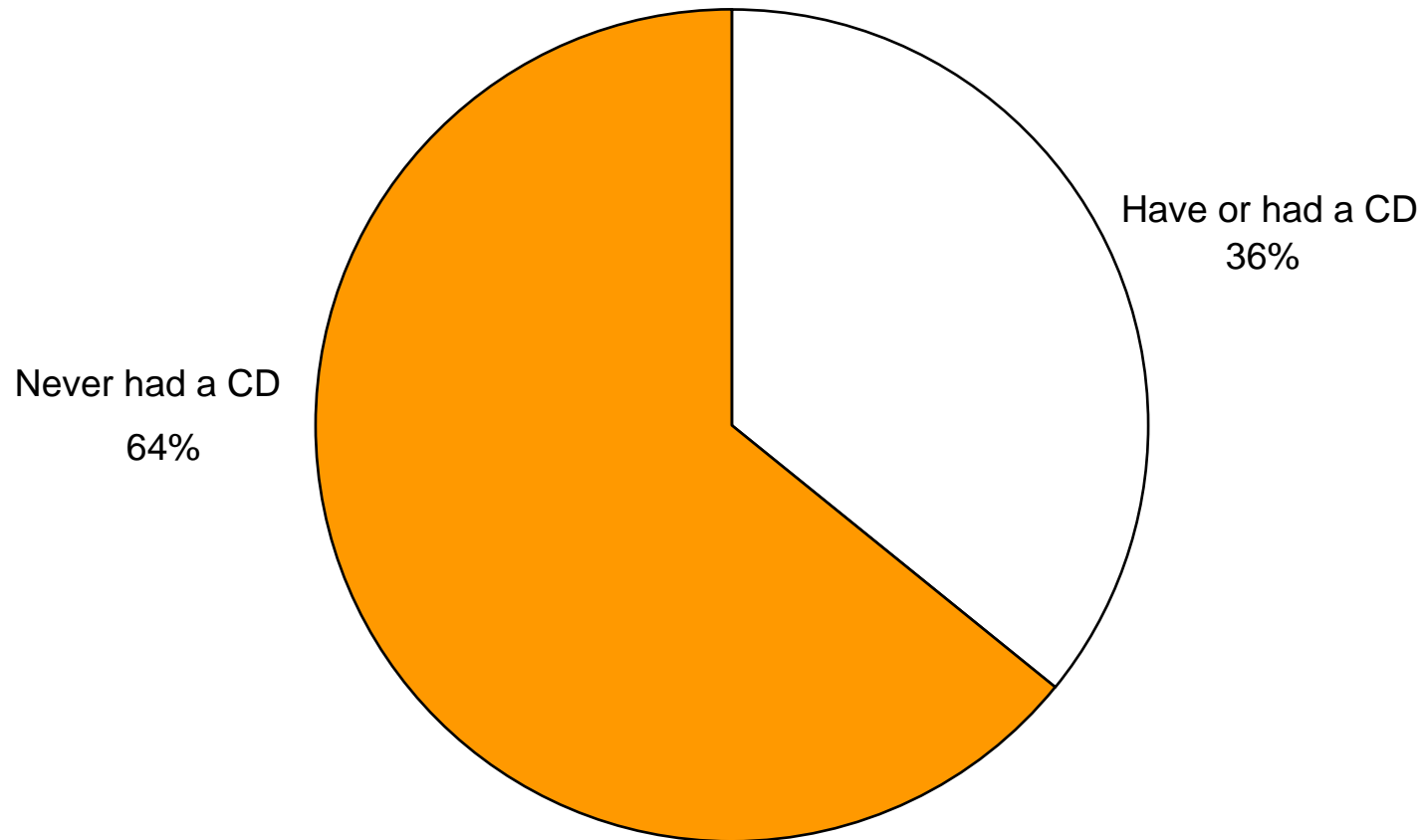
Positive Impact on the Financially Vulnerable

- 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

| | At December 2009 | | |
|------------------|----------------------|-------------|---------------------|
| | # of Active Accounts | Total Saved | Avg Account Balance |
| Non-Savers (56%) | 2,824 | \$1,660,897 | \$588 |
| Asset Poor (39%) | 1,849 | \$721,227 | \$390 |
| LMI (44%) | 2,162 | \$1,370,471 | \$634 |

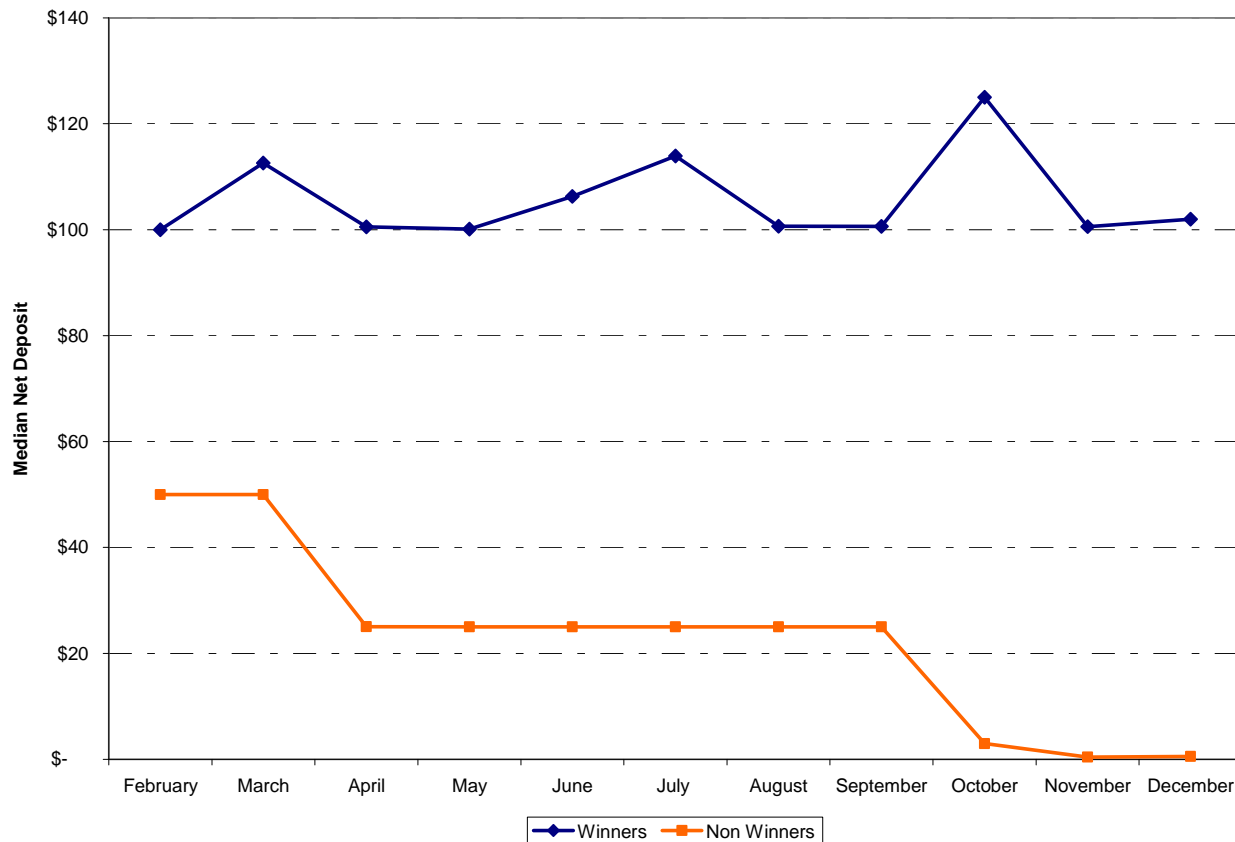
Product Features Attractive

- 64% of survey respondents reported that they never had a share certificate (certificate of deposit) before opening the Save to Win account
- The features of the product—a one-year certificate term, low opening deposit, flexibility to deposit small amounts throughout the year, the withdrawal penalty, and the lure of monthly prizes along with a \$100,000 grand prize—seemed to attract members



Monthly prizes motivate savings

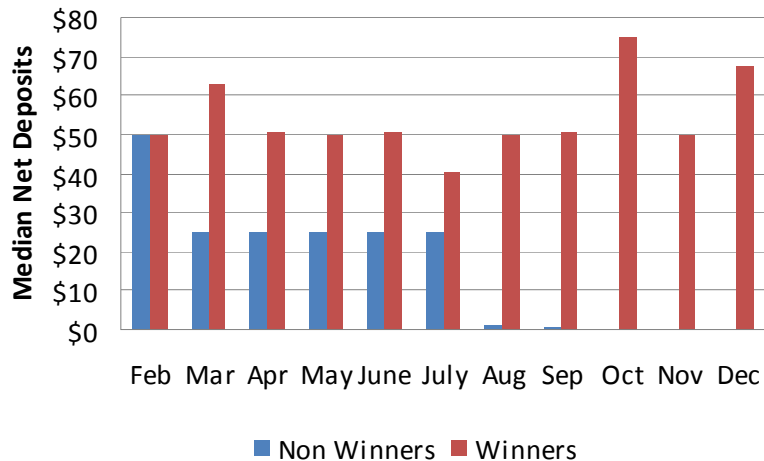
- Interestingly, winners were better regular savers than non-winners when looking at savings behavior after a prize was awarded.
- The median deposit for winners holds steady at \$100 while deposits trend downward and drop-off to \$0 later in the year for non-winners



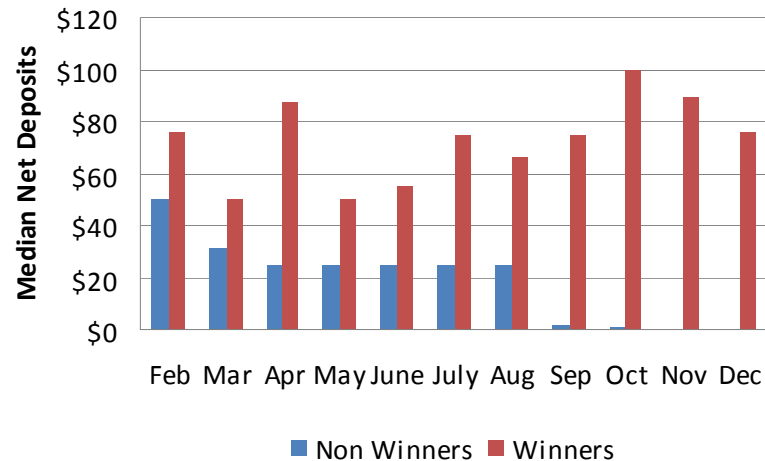
Monthly prizes motivate savings

- Monthly prizes helped even the most financially vulnerable members save consistently
- Interestingly, winners awarded larger monthly prizes (\$400) did not seem to be better savers than smaller monthly prize winners (\$15)

Asset Poor



LMI



2010 Snapshot results

Save to Win 2010 (12-31-2010)

| Michigan “Save to Win” Program | | |
|---------------------------------------|---------------------------------------|--|
| | 2009 (8 Credit Unions) | 2010 (36 Credit Unions) |
| Accounts | 11,666 | 16,833 |
| Amount Saved | \$8.56 million | \$28.16 million |
| Average Account Balance | \$734 | \$1,673 |

- Over 1,710 members have won more than \$233,000 in prizes

Preliminary Profile of 2011 Savers

Save to Win 2011*

| Michigan Save to Win 2011 Snapshot | | |
|------------------------------------|--------------------|-----|
| Income | \$0-\$40K | 40% |
| | \$40 - \$60K | 26% |
| Saver Type | Non-saver | 45% |
| Asset Type | Asset-Poor | 32% |
| HH Status | Married w/children | 22% |
| | Single w/children | 13% |

** Snapshot of savers from 2009, 2010, and 2011 who are currently saving in 2011 (as of 6/15/2011)*

Designing a PLS product

Consumer Preferences*

People like the chance to win

When asked what matters more between winning “at least once” and getting a “substantial prize”, the majority (67%) of people prefer to win at least once.

A large, winner-take-all, grand prize package is not the most popular

On average, individuals prefer that prize payouts are spread across more winners rather than given to a single winner.

Keep a range of monthly prizes

Consumers’ “sweet spots” typically ranged from \$100 to \$1,000 for the monthly prize sizes, with some consumers preferring a prize as low as \$50. With this variability in preference, it is useful to offer a range of monthly prize packages.

Focus on activity-based incentives rather than volume-based incentives

The financially vulnerable like opportunities to improve their chances through increased activity, e.g. frequent deposits.

* Preliminary Findings from upcoming report – Findings represent MI only respondents

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