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Prize-Linked Savings Accounts: Offering Incentives to Save

By Heather Morton

In 2013, Carolann Broekhuizen won big, collecting $10,000 on some "bets" she placed. But she didn't make a bet in a casino. Instead, the Michigan woman obtained her windfall by making deposits in a "Save to Win" prize-linked savings account at her local credit union.

Prize-linked savings (PLS) accounts encourage people to save money by adding a lottery-like feature to certain accounts. Deposits into savings accounts or certificates of deposit (CDs) are held in a financial institution risk-free (just like traditional savings accounts or CDs), and depositors are entered into a drawing based on the number or size of their deposits during a given period. They then have a chance to win prizes, which are funded through the interest that accrues across the pool of prize-linked accounts.

Although they are new in the United States, prize-linked savings plans have a long history internationally. The first PLS program was created in the United Kingdom in 1694 as a way to pay off war debt. Since the 1950s, the United Kingdom has offered its Premium Bonds program, with a total prize fund of at least £50 million (approximately $73 million in U.S. dollars). PLS programs are offered in 22 countries, including Germany, Indonesia, Japan and Sweden.

One reason prized-linked savings accounts may be gaining traction in the United States is Americans' propensity not to save. Policymakers across the political spectrum agree that a savings cushion can help consumers increase their economic mobility and act as a buffer against financial emergencies. For many, however, setting money aside can be difficult, and many consumers have not done so during the last 40 years. In 1975, the personal savings rate hit a high of 17 percent of disposable personal income, and it declined to 1.9 percent in 2005. At the end of 2014, the personal savings rate rebounded to 4.9 percent. According to the Employee Benefit Research Institute's 2014 Retirement Confidence Survey, 36 percent of U.S. workers reported they have less than $1,000 in savings or investments. Further, 68 percent of those with an annual household income of less than $35,000 have savings of less than $1,000. However, a recent Gallup Poll on Gambling in America found that 57 percent of adults reported buying a lottery ticket in a 12-month period.

With these statistics in mind, the Save to Win pilot project was launched in Michigan in 2008. At the time, Michigan had the only statutory provision that authorized credit unions to hold savings promotion raffles. The pilot project could not include banks or other financial institutions because they were prohibited from operating lotteries. At the end of the first phase of the pilot, 11,666 new accounts had been opened, and each account holder had

Did You Know?

- By the end of 2014, consumers' personal savings rate was 4.9 percent of their disposable personal income, according to the U.S. Department of Commerce's Bureau of Economic Analysis.
- The first prize-linked savings program was created in the United Kingdom in 1694 as a way to pay off war debt.
- In 2014, 36 percent of U.S. workers had less than $1,000 in savings or investments.

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saved an average of $734. Save to Win has awarded more than $1.4 million in prizes to more than 14,000 members in four states since 2009.

Proponents argue that offering incentives to save through promotional raffles is an entertaining way to save money and appeals to peoples' desire to win a prize. Opponents say PLS programs foster a gambling mentality and have unfairly favored credit unions over banks and other financial institutions.

As an alternative to the savings promotion raffles, banks have offered sweepstakes encouraging consumers to save. JPMorgan Chase Bank held a "Double Your Money" deposit sweepstakes, which offered savings account customers the chance to double their money, up to a maximum of $5,000, and nonaccount holders a chance at a $5,000 check. As opposed to PLS programs, participants in a deposit sweepstake cannot be required to have an account at the bank to be eligible to win. To participate, a person could make a deposit, set up an automatic deposit or submit an entry card by mail.

State Action

Building on the success of the Michigan pilot project, Maine, Maryland and Rhode Island enacted legislation to authorize savings promotion raffles in 2010. Nebraska, North Carolina and Washington followed in 2011, Connecticut enacted legislation in 2013, and Indiana and New York did so in 2014. One obstacle to enacting legislation in additional states has been federal law that prevents banks—but not credit unions—from conducting raffles, resulting in opposition from banking associations in some states. The laws enacted in Connecticut, Maine, Maryland, New York and Washington were drafted to apply to all financial institutions, in anticipation of a possible federal law change, while the laws in Indiana, Nebraska, North Carolina and Rhode Island apply to credit unions. In 2014, Michigan enacted legislation to allow savings promotion raffles to be administered by state-chartered banks.

Legislation to authorize savings promotion raffles currently is pending in Illinois, Maryland, Minnesota, Nebraska, New Jersey, Oregon, Texas and Virginia. The bills in Maryland and Nebraska seek to amend the existing statutory provisions.

Federal Action

To address the concerns of banks and other financial institutions and help prize-linked savings programs expand, Congress passed the American Savings Promotion Act. Prior to the act, banks were prohibited from announcing, advertising or publicizing any lottery, participant or winner, including games of chance that require some form of consideration, such as a deposit, for the chance to win more than the amount provided. The bipartisan bill, H.R. 3374, sponsored by U.S. Representatives Derek Kilmer (D-Wash.) and Tom Cotton (R-Ark.), authorizes banks and thrifts to conduct savings promotion raffles and excludes such raffles from the prohibition against financial institutions dealing in lotteries. The companion Senate legislation was sponsored by Senators Jerry Moran (R-Kan.) and Sherrod Brown (D-Ohio).

NCSL Contact and Resource

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NCSL, Prize-Linked Savings 2015 Legislation

Additional Resources

Bipartisan Policy Center Blog, Prize-Linked Savings Accounts Are Lotteries with No Losers, May 14, 2014

Center for Policy Innovation, The Heritage Foundation, Boosting Economic Mobility Through Prize-Linked Savings, May 29, 2013

Doorways to Dreams Fund, Playing the Savings Game: A Prize-Linked Savings Report, 2012