

A WINNING PROPOSITION:

Creating Economic Opportunities Through the State Lottery

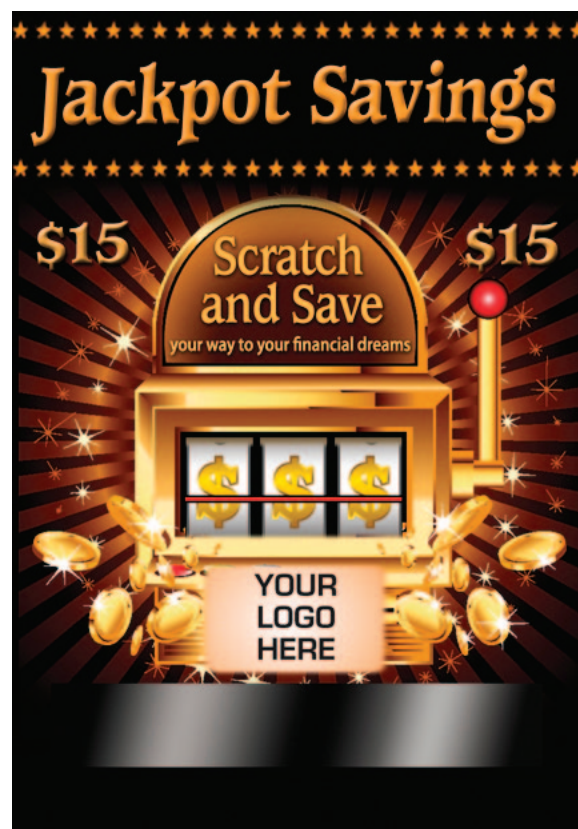
Doorways to Dreams Fund

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Imagine walking into your local convenience store, going up to the counter, and asking to buy a \$15 savings ticket from the range of lottery ticket offerings. You buy your ticket, knowing that unlike any other lottery offering, this one is a “no lose” ticket. Not only do you get to keep your \$15 but you also have earned chances to win, both immediate and future prizes, with each ticket bought.

You take your savings ticket, and like any lottery scratch ticket, you get giddy with excitement as you take out your penny to scratch to see if you have won. You quickly learn that you have been rewarded with a \$15 instant prize. You redeem your winnings and instead of taking cash you decide to buy one more ticket – one to gift to your daughter.

You walk out of the store, with your \$30 of saving tickets in hand and the excitement of knowing that you still have more chances to win.



There is no denying the constant competition for a share of Americans' wallets. Every day, we walk into our local convenience store or market and can easily drop \$20 on consumption and impulsive spending decisions. To compete with the consumption pressures, a savings product needs to have a special uniqueness and fun experience to engage consumers. From this vantage point, certain features of the prize-linked savings (PLS) work stand out. First, PLS offers the tantalizing promise that excitement and fun could replace self-denial as the fundamental frame through which consumers view saving and asset development. This is a decisive advantage in a free market, where consumers must choose to open – and continue to use – a savings product, and saving itself faces stiff competition from endless opportunities to spend.

At the same time, PLS products can change the economics of savings incentives – or, said another way, the cost of influencing consumer behavior. Savings matches or subsidies typically aim to produce two effects: to supplement and incentivize consumers' savings. A probabilistic – rather than guaranteed – savings return has no advantage as a supplement; but as an incentive, it may be far more cost effective.

Finally, like many good ideas, PLS is not simply one, static product idea; as D2D has articulated in prior reports, PLS is best understood as a concept – using prizes and uncertainty to attract consumers and keep their attention – that can be attached to a variety of products, offered in a range of channels. A PLS “lens” may yet prove to be an important way to look at a variety of existing and future financial products, services and social policy interventions.

It is this last feature that brings D2D to the potential role of government, specifically state lotteries, as a channel for PLS products. In fact, the idea that government should sponsor a prize-linked savings product is not new or untested. Perhaps the best example is the Premium Bonds program in the United Kingdom, which has been offered for more than 50 years by an agency of the UK federal government. Premium Bonds are a special savings bond where savers give up guaranteed interest for the potential to win cash prizes. Today premium bonds are held by more than 23 million—one in three—Britons valued at over £43 billion. Premium bonds can be purchased at post offices, by mail and online throughout the UK. The combination of a government-backed product and distribution through a public institution (the Post Office) has made Premium Bonds very accessible and wildly popular.

With the United Kingdom and other countries successfully offering PLS products for decades, it's time for the U.S. to consider a similar government-backed product that engages its consumers in savings. Through this lens, this paper discusses the opportunity for a U.S. government backed savings product offered through the lottery channel, making the case for the role of government in savings, the potential of the lottery channel for offering such a product, the impact of a lottery-based savings ticket on consumers, and how such a product could be offered to consumers through the lottery channel.

Role of government in savings

In the U.S., both state and federal government have exclusive assets that give them the opportunity to encourage savings in various forms. The federal government has most often leveraged the U.S. tax code to incent certain types of savings (retirement, home ownership) and the Treasury Department to offer U.S. Savings Bonds. Their role in providing savings incentives or products at scale has been successful and unmatched by any product or program offered in the private sector. And why? Government has the unique ability to offer a product or incentive almost universally. A market with that potential size and scale can lead to a more sustainable product. Additionally, government benefits from a name recognition and credibility that is difficult for a private player to obtain.

Examine one of the biggest savings products the government offers—the U.S. Savings Bond program. In 1935, President Franklin Roosevelt signed into law the first U.S. Savings Bonds. They were introduced to encourage “broad participation” in federal financing and designed to include the small investor.¹ From the first “baby bonds” to the World War II bonds and throughout the subsequent iterations, bonds were a ubiquitous savings product. This is no surprise – the federal government had, and still has, the ability to influence their citizens and bring together other influential actors towards a shared goal. In fact, in 1963, President John F. Kennedy used his role to promote U.S. Savings Bonds. He established the U.S. Industrial Payroll Savings Committee to organize business interests towards encouraging payroll savings. Beyond the president and business leaders, several decades of pop culture also promoted savings bonds.² After almost 80 years of this government offered savings product, one in six Americans hold a bond. The unique combination of a high-quality savings product with the government's access, credibility, and influence has led to unparalleled savings.

State governments are also sitting on an asset, to date untapped, that could be leveraged to provide savings opportunities at scale and could redefine the savings experience – the state lottery. As D2D

¹ http://www.treasurydirect.gov/indiv/research/history/history_sbbegin.htm (12/12/12)

² <http://www.treasurydirect.gov/timeline.htm> (12/12/12)

introduced in our 2012 “Playing the Savings Game” Report, state lotteries offer an exciting distribution channel for a savings product that could also have a prize-linked layer to help engage and motivate saving. Lotteries have several features that make them ideal:

- **Branding** – Lotteries are a well-known commodity in states where they exist.
- **Footprint** – With over 200,000 retail locations³ in 46 jurisdictions,⁴ lotteries currently have a larger footprint than financial institutions. Moreover, the retail stores are often located in neighborhoods not traditionally well-served by the mainstream financial services industry.
- **Legal Authority** – Lotteries are in the unique position of having the authority to offer games of chance and could create a prize-linked savings product more simply than other providers. In most states, no other entity has as much authority or flexibility to offer games as the state lottery.
- **Technology Infrastructure** – Lottery systems operate using a very sophisticated money transfer system that have the capacity for much more than their current use in the U.S. Since these systems are already built by private industry under contract with the government, they could be leveraged for a savings purpose.

Lottery may not be such a strange bedfellow to achieving a savings public policy goal. Lotteries have a long history of being employed by the state to raise funds for positive public policy outcomes. In fact, the US was in many ways founded through lottery revenue. In 1612, King James of England created a lottery to fund the establishment of Jamestown, Virginia, the first British colony in America. Benjamin Franklin, John Hancock, George Washington, and Thomas Jefferson reportedly held raffles to raise funds for cannons for the Revolutionary War, building Faneuil Hall in Boston, and building roads for western expansion. Many of the oldest universities and colleges in the U.S. were erected with lottery

proceeds including Harvard University, Yale University, and Columbia University. Interestingly, in the late 1700s before the establishment of taxation and the existence of many banks, lotteries were common sources for public and private funding.⁵

Today, 43 states and the District of Columbia offer a state-sponsored lottery. The main purpose continues to be for achieving public policy priorities including funding state education costs, infrastructure maintenance, and state operations. Admittedly, not all people are supportive of state-sponsored gambling to raise funds for the state. However, lotteries are wildly successful, with the majority of Americans playing at some level. Given the controversy with lotteries, offering a win-win savings lottery may be part of the solution. The state achieves a public policy goal of increased financial security among residents while demonstrating to opponents the additional values the lottery infrastructure offers to the state.

³ <http://www.scigames.com/sections/industry-information/lottery-industry.aspx> (4/25/13)

⁴ <http://www.naspl.org/index.cfm?fuseaction=content&menuid=14&pageid=1020> (4/25/13)

⁵ <http://www.naspl.org/index.cfm?fuseaction=content&menuid=11&pageid=1016> (12/12/12)

CONSUMER ENGAGEMENT WITH THE LOTTERY

In 2010, consumers in the United States spent \$58 billion on the lottery.⁶ The amount indicates how much consumers' buy-in to games of chance, the excitement of winning, and the hope that a small ticket could help them achieve the American Dream. With decreases in average household income and wealth, especially for middle and low-income Americans, sometimes the only hope for change is the chance of a big win that could make a real economic difference. In fact, a study by the Consumer Federation of America (CFA) found that 21% of all Americans and 38% with less than \$25,000 in income believe that winning the lottery is the most practical way to accumulate a significant amount of wealth.⁷

The significant amount consumers spend on the lottery, coupled with the low probability of winning, creates a need to understand who the lottery attracts and the psychology of consumers that draws them in. These insights could help us design an integrated savings feature into the lottery channel that provides all consumers, and especially more financially vulnerable consumers, an opportunity to build assets in a more fun and engaging way.

⁶ Wilson, Jacque. "Why you keep playing the lottery." *www.cnn.com*. August 16, 2012

⁷ http://www.consumerfed.org/pdfs/Financial_Planners_Study011006.pdf

Who plays the lottery?

While the majority of consumers dabble with the lottery, concentrated play lies with a smaller subset. Just over half of consumers play the lottery, but 20% of them account for over 80% of the sales. While average annual spending for all lottery players is \$313, the amount spent by more financially vulnerable consumers is much higher. Households with less than \$10K in income and households with income between \$10K and \$25K spend on average \$597 and \$569, respectively.⁸ Even though participation rates are slightly less for lower income consumers, those who play are spending a significant percentage of their income on lottery play, with one study reporting that households with less than \$12,400 spend 5% of it on the lottery.⁹

What attracts consumers to the lottery?

The lottery, in the United States and internationally, has been very successful in engaging consumers for many reasons, including the effectiveness of the marketing, the accessibility to consumers, the draw of the prizes and the fun of the games. Underlying many of these though is the psychology at play that attracts consumers to the lottery in the first place and then engages them in ongoing play. While there are many behaviors at play, we believe the following ones are key to understanding engagement with the lottery as well the potential for savings in the lottery channel.

Although consumers playing the lottery focus more on the prize at hand than the actual odds of winning, there are also many misperceptions of probability¹⁰ that strongly influence consumer habits:

- **Gambler's Fallacy** – Although individual events are independent of one another, a pattern that

⁸ Clotfelter et al. (1999). *State lotteries at the turn of the century: Report to the National Gambling Impact Study Commission*. National Gambling Impact Study Commission.

⁹ Wilson, Jacque. (2012).

¹⁰ Griffiths, M., & Wood, R. (2001). *The psychology of lottery gambling*. *International gambling studies*, 1(1), 27-45.

seems to defy the odds influences consumer perceptions of their odds of winning. Consumers incorrectly believe that the chance of the opposite occurring will increase after a long streak of losses. Given this, a consumer will keep playing believing that their chance of winning is higher due to a past streak of losses.

- **Entrapment** – When consumers commit to a goal, they continue to pursue it until it is achieved. With respect to the lottery, this means repeated play with the same set of lottery numbers. Consumers believe that over time, their chances to win with the same set of numbers will increase despite the fact that each week's play is independent from one another. However, having invested time and money into the same numbers each week, consumers don't want to walk away out of the fear that once they walk away their numbers will be drawn.

- **Availability Bias** – The lottery effectively advertises winners, which skews consumer perception of the chance of winning. With the available information, consumers believe that winning the lottery occurs more frequently and regularly than it actually does, impacting their belief that their chances of winning are higher.

In addition to these probability fallacies, there are many other factors at play that influence consumer lottery behavior:

- **Peanuts Effect** – Consumers are willing to take risks when the cost-to-benefit ratio is high. In the case of the lottery, the small cost of a ticket can yield a large prize. While the cost of one play might be low, the continued cost of playing can be very expensive for a consumer. However, consumers are often myopic in their thinking, focusing on the current play at hand, which prevents them from seeing the total cost of their game playing habits.¹¹

- **Bandwagon Effect** – Consumers like to be a part of the current fad or trend, especially when many of their peers, neighbors, and social networks are engaged. With the significant media attention to the lottery, especially around large prizes and rollover prizes, consumers are drawn into

the movement, entering the game as others do, not wanting to miss out on that chance to win.¹²

- **Meaning of Winning** – As indicated above, despite the low odds of winning, consumers are more focused on the prize and opportunity that it represents – their ticket out of a life of economic uncertainty and financial insecurity. Low to moderate income (LMI) consumers especially do not see any other chance of real economic improvement in their lives, and despite the low odds of winning, the lottery is the only hope of obtaining it. For many LMI consumers the draw is huge, as it provides an opportunity to correct their low-income status, a chance for a sudden increase in wealth, and for once, an equal chance of winning as someone from a higher economic status.¹³

What is the opportunity here?

If we consider the consumers playing the lottery and the factors that draw them in, we have an opportunity to use the lure of the lottery to engage consumers in behaviors that can create “win-win” situations for them. From our understanding of the psychology at play in the lottery channel, we know that consumers desire activities that are fun and engaging that provide them a chance to achieve their dreams; consumers have many misperceptions of their real odds of winning; and consumers like to jump on the bandwagon and be a part of the movement. These behaviors, that are attracting and engaging consumers in lottery play, can be used effectively to engage consumers in financial behaviors where the actual, not just the perceived, cost to benefit ratio is high. If we keep in mind the more financially vulnerable consumers who play the lottery and spend a significant amount of their incomes for the hope of winning, the potential positive impact on their financial lives can be huge.

¹¹ Wilson, Jacque. (2012).

¹² Goldbart, Stephen. “Lottery-itis!” www.psychologytoday.com. March 29, 2012

¹³ Haisley, E., Mostafa, R., & Loewenstein, G. (2008). Subjective relative income and lottery ticket purchases. *Journal of Behavioral Decision Making*, 21(3), 283-295.

SURVEY FINDINGS & POTENTIAL IMPACT

To better understand the market demand and product design for a “savings ticket,” original market research was conducted by Mathew Greenwald & Associates on behalf of D2D.¹⁴ The purpose of the study was to gauge consumer reaction to a lottery-based prize-linked savings.¹⁵ The data were weighted by state, age, and income to be representative of the population of the United States.

The analysis focused on assessing demand for savings tickets, gauging reactions to potential designs of the ticket, and understanding the potential impact of this new product on consumers. The following highlights the key findings from the market research:

¹⁴ Matthew Greenwald & Associates conducted a nation-wide survey, designed in conjunction with D2D, between June 15 and June 25, 2012. Nine hundred seventeen respondents were selected from members of Research Now's online research panel. Matthew Greenwald & Associates then analyzed a portion of the data and D2D performed additional analysis, the results presented in this section are a combination of both findings.

A strong demand for a lottery savings ticket exists

To determine an accurate demand for a lottery savings ticket, consumers were surveyed on both their expressed interest in a hypothetical product and latent interests and needs relating to the product. As this product does not exist in the U.S. market, understanding underlying indicators of purchase potential impacts our assessment of potential demand.

LATENT INTEREST

The latent interest of respondents was determined in several ways: respondents were asked about the role of government in savings, their interest and trust in the lottery as an institution and distribution channel for savings, and their interest in a savings product that provides a “reward” for savings.

A majority of consumers believe that the government has a strong role to play in helping consumers build assets. Sixty-one percent of respondents stated that they thought the state and federal government should do more to encourage people to save, with 24% strongly and 37% somewhat agreeing to this statement.

Consumer's reaction to the lottery institution shows the potential for a government offered savings

¹⁵ To further analyze the results of the survey, this paper examined multiple subgroups reactions to the saving's lottery ticket. Each group was compared to see if there was a statistically significant different in responses to multiple questions. To allow for analysis, multiple responses were combined and dummy variables created. The analysis then utilized two different statistical methods in accordance with the type of dependent variable. For nominal and ordinal variables a chi-squared test was used. Some similar responses were grouped depending on the unit of analysis. For interval variables a one-way ANOVA test was used. In both cases the test was to determine if the responses between groups were significantly different with the null hypothesis that the groups had equivalent responses. Additional data was pulled from original market research conducted by Knowledge Networks for D2D in Spring 2011. The purpose of this survey was to measure demand for a PLS product in different channels and to gauge preference for different product features. 1,332 respondents with incomes less than \$60,000 participated.

solution through this distribution channel. While only moderate support for the lottery exists, with just 21% of the population strongly (5%) or somewhat (16%) trusting of the lottery, 38% feel neutral about the institution. Although strong enthusiasm for the lottery does not exist, this more neutral view by the majority of consumers demonstrates their openness to the lottery and its potential as a savings channel.

This finding is further supported by consumers' responses in a 5-State Survey previously conducted for D2D, where respondents ranked their top choices for a distribution channel for a PLS-product. State lotteries were in the top three-choices for 19% of respondents with targeted subgroups ranking lotteries even more highly as a distribution channel. Around one-fourth of single mothers, minorities, un- and under-banked, and asset poor respondents ranked the state lottery in their top-three.¹⁶

Consumers indicated a need for savings and believe that a new type of product that provided a

reward would help them do so. Consumers strongly (82%) or somewhat (15%) agreed that they needed emergency savings and 52% indicated they would save more if there was a more immediate reward for doing so.

EXPRESSED INTEREST

To determine expressed interest, survey respondents were given a hypothetical product description¹⁷ and asked to respond to a variety of questions to gauge interest. There was a very positive, strong reaction in favor of a savings lottery ticket with 56% of respondents saying they had a very favorable (21%) or somewhat favorable (35%) reaction to a savings ticket. There was very little attrition between those who had a favorable opinion of the product and those who were likely to buy a ticket, with 50% of all respondents expressing that they were either extremely likely (17%) or somewhat likely (33%) to buy the product.

Reaction to Savings Ticket by Financial Habits

Survey Question	Response	Favorable view (somewhat or very favorable)	Purchase Likelihood (somewhat or extremely likely to buy)
Overall Respondents	--	55%	51%
How satisfied are you with your financial situation?	Dissatisfied	61%***	60%***
	Neutral	44%***	38%***
	Satisfied	52%***	47%***
How motivated are you to save due to a reward?	Highly motivated by reward	63%***	59%***
	Neutral about reward	47%***	43%***
	Not motivated by reward	46%***	46%***
Have you ever paid a bill 30 days or more late?	Never have paid a bill 30 days late	52%**	49%***
	Have paid a bill 30 days late	59%**	59%***

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¹⁶ For more information about the survey methodology and responses please see Boyd, Heidi and Maynard, Nick. "Prize-Linked Savings and Financially Vulnerable Americans: Insights from a Five-State Study." (2011). Available at www.d2dfund.org.

¹⁷ Consumers were asked to react to a product that was sold wherever lottery tickets are sold, was \$15, with monthly prizes totaling \$5,000 and annual prizes totaling \$300,000 with monthly and yearly prize drawings.

Reaction to Savings Ticket by Financial Habits Cont.

Survey Question	Response	Favorable view (somewhat or very favorable)	Purchase Likelihood (somewhat or extremely likely to buy)
Have you ever over drafted an account?	Never have over drafted an account	52%*	48%***
	Have over drafted an account	60%*	60%***
Which of these best describes your saving habits?	Never able to save	62%	62%**
	Can save when given extra money	55%	52%**
	Save whatever is left over at end of pay period	56%	50%**
	Save a determined amount every pay period	51%	50%**

* indicates significance level, * p<.10, ** p<.05, *** p<.01

The interest and positive reaction to savings tickets were amplified in targeted, financially vulnerable groups. Overall, those who are less satisfied with their financial situation, have issues managing finances (by over drafting an account or paying a bill late), or are motivated by a reward to save are both more likely to view savings tickets favorably and to say they would buy them. Additionally, those who self-identify as having problems saving are more likely to buy a savings ticket.

The findings reveal the positive potential of a lottery-based PLS product in attracting and engaging consumers in savings. Both latent and expressed preferences indicate a strong demand by consumers, especially amongst consumers that are more financially vulnerable. Overall these consumers were more likely to express a positive opinion of a savings ticket, more likely to buy the sample product, and more likely to rank the lottery highly as a distribution channel.

Savings tickets attract a diverse set of consumers indicating a large potential market

Consumer interest and willingness to play the savings lottery is widespread. Findings from

the survey indicate that there are no statistically significant differences in the interest in savings ticket or likelihood to buy a ticket by gender, age, education, or income. This widespread popularity is important as a way to reach and engage diverse subsets of the population.

However, the responses by more financially vulnerable sub-groups show the potential of savings tickets to reach households that are more likely in need of access to a good savings opportunity. Respondents who identify as Hispanic, who have lower asset levels, are lottery players, those who are unemployed and looking for work, or those who are students are statistically significantly more likely to view savings tickets favorably as well as say they will purchase them. Lifecycle considerations are important in determining opinion of savings tickets; respondents who are not retired and have children under 18 at home are also more likely to approve of savings tickets and say they will purchase them. African American, Caucasian, and respondents who identify as "other" racial or ethnic backgrounds are much more likely to purchase a savings ticket than those who identify as Asian or Pacific Islander.

While many are attracted to the product, not surprisingly, consumers who are financially secure tend to be less interested. The most common response for

Reaction to Savings Ticket by Demographic Characteristics

Survey Question	Response	Favorable view (somewhat or very favorable)	Purchase Likelihood (somewhat or extremely likely to buy)
Overall Respondents	--	55%	51%
Are you of Hispanic, Latino, or Spanish Origin or Descent?	Yes	67%**	65%*
	No	53%**	50%*
Which best describes your racial/ethnic background?	African-American/ Black	58%	56%**
	Asian/Pacific Islander	59%	29%**
	Caucasian/White	53%	50%**
	Other	64%	61%**
Which best describes your employment status?	Employed Full Time	61%***	58%***
	Employed Part Time	51%***	48%***
	Stay-at-home-spouse or parent	46%***	46%***
	Unemployed, but looking for work	68%***	61%***
	Unemployed, but not looking for work	46%***	55%***
	Full-Time Student	70%***	55%***
Do you consider yourself retired?	Yes	48%***	44%***
	No	58%***	55%***
Total Asset Level	Under 10k	62%***	56%***
	10-25k	52%***	53%***
	25-50k	60%***	55%***
	50-100k	56%***	54%***
	100-200k	54%***	55%***
	200k+	55%***	52%***
	No Answer	37%***	33%***
Do you have any children under 18?	Yes	62%**	62%***
	No	53%**	49%***
Frequency of Lottery Play	Frequent	64%***	64%***
	Infrequent	61%***	61%***
	Never	41%***	33%***

* indicates significance level, * p<.10, ** p<.05, *** p<.01

those who said they would not purchase a savings ticket was that they already save enough on their own (87% of respondents).

Gifting savings is a popular motive for buying savings tickets

Consumers will gift savings. More than half of respondents (52%) were interested in gifting savings tickets. The popularity of gifting has a strong precedence in the form of U.S. Savings Bonds. The tangibility of a bond, or savings ticket, holds great appeal. Additionally, the excitement of a chance to win could draw in an even greater number of people who want to gift savings. It is important to note that there is no difference in the demographics of who would gift, a woman who is 27 years old and holds a law degree and a 68 year old man who makes \$10,000 a year are equally likely to gift savings. The universality of this appeal is important because it can touch a wide variety of consumers with different needs and motivations.

Additionally, there is likely a category of consumers who would participate in the savings lottery exclusively as "Gifters." These consumers have said that they would buy savings tickets as gifts only, rather than buying them for themselves. They make up 8.2% of total consumers who said they were likely to buy a savings ticket. Gifters are less likely to be employed full-time, most indicate they are not looking for work currently,¹⁸ and are more likely to be married. These are likely older individuals with adult children or grandchildren. These Gifters are an important subgroup to explore and may grow as new giftable savings innovations become available in the marketplace.

Consumers can build savings through the lottery

Examples of prize-linked savings in other countries have demonstrated significant take-up across income levels.¹⁹ As the expressed and revealed interest in the product in this survey mirror the enthusiasm

demonstrated in other countries, the potential impact of a lottery-linked PLS product on consumers is very large.

An estimated 57% of American adults report playing the lottery at least once within a 12-month period, attracting game play from over 134 million consumers. Based on our survey, 38% of lottery players and 14% of non-lottery players would purchase saving tickets, meaning the potential reach of such a product at scale would be 65.6 million adults, 51.6 million and 14.0 million lottery and non-lottery players respectively.

Assuming that consumers purchase an average of \$50 a month in savings tickets, as indicated by survey respondents, each player would generate an average of \$600 in savings each year. At scale this product could help consumers save a total of \$39.3 billion a year. The potential is huge, and the opportunity timely given the need for savings, the appetite for new savings opportunities, the need for innovations that effectively reach consumers, and the availability of new technologies that can make the purchasing and gifting of a savings ticket just as easy as decisions to consume and impulsively spend.

How big is the market?

134,000,000

consumers or 57% of American adults report playing at least once within a 12-month period.



¹⁸ At the .17 level gifters are more likely to say they are retired.

¹⁹ In the UK Premium Bonds Program, between 22-40% of the UK population holds over £31 billion in savings amounting to £561 per capita, from Tufano, P. "Saving Whilst Gambling: An Empirical Analysis of UK Premium Bonds." *American Economic Review*. (2008).

REAL WORLD IMPLEMENTATION

A savings ticket would integrate well into the lottery channel – both in terms of product type and distribution. A savings ticket fits well with the excitement of the lottery, engaging consumers with the chance to win and doing so through tickets that provide a tangible reminder of savings while replicating the look and feel of a lottery game. The lottery has a distribution network with the ability to reach millions of consumers, with the only white space in the seven states where the lottery is illegal. Today, 46 jurisdictions have state lotteries (43 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands) with more than 200,000 retail locations where tickets can be bought. This creates both breadth and depth of reach to consumers, meeting the customer where they are in locations that are familiar and accessible to them.

Technology innovations

New technological innovations also create more opportunity for reaching consumers as well as innovative ways to provide access to savings in this channel. For instance, a few states such as Illinois and Georgia now allow online gaming,²⁰

expanding their channels to potentially reach more consumers and engage consumers more frequently. Other innovations, such as prepaid cards (e.g. Georgia's I-Hope card²¹) and selling lottery tickets at gas pumps and ATMS (currently being piloted in Minnesota²²) create more opportunity to find ways to integrate savings into the lottery channel. Imagine a prepaid card linked to the lottery with a prize-linked savings feature. Every time you deposit \$25 into the savings feature, you earn chances to win. Or imagine pumping gas or withdrawing cash from an ATM and being prompted to buy a savings ticket. These technology innovations create new and exciting opportunities to make savings fun as well as easier and more accessible.

How could it work?

While there are different ways for savings to be integrated into the lottery channel, the main opportunity with the lottery is the fact that it is well recognized and very accessible to consumers. For this product to work successfully, we envision a savings ticket sold within the lottery distribution channels so consumers learn about the savings ticket easily, can impulsively purchase it like any other lottery ticket, and have a similar experience with the excitement of a chance to win.

The main difference between the savings ticket and traditional lottery is that the value of the ticket itself, not just the winnings, is the consumers. And, while the ticket itself could create an instant win for a consumer, each ticket purchased and held onto by a consumer would provide them with additional chances to win monthly and yearly prizes. Given this structure, consumers would be incentivized to not just purchase individual tickets but to register them so their tickets can be linked to a single account and individual purchaser.

²⁰ Berzon, Alexandra. "States Up the Online Ante" *Wall Street Journal Online*. April 25, 2012

²¹ "Online lottery sales to begin this fall in Ga." *News 12 First at Five*. August 3, 2012

²² Matos, Alejandra. "Minnesota becomes first state to sell lottery tickets at gas pumps, ATMs," *Minneapolis Star Tribune*. December 3, 2012

From a consumer's perspective, one model of how this could work is as follows:

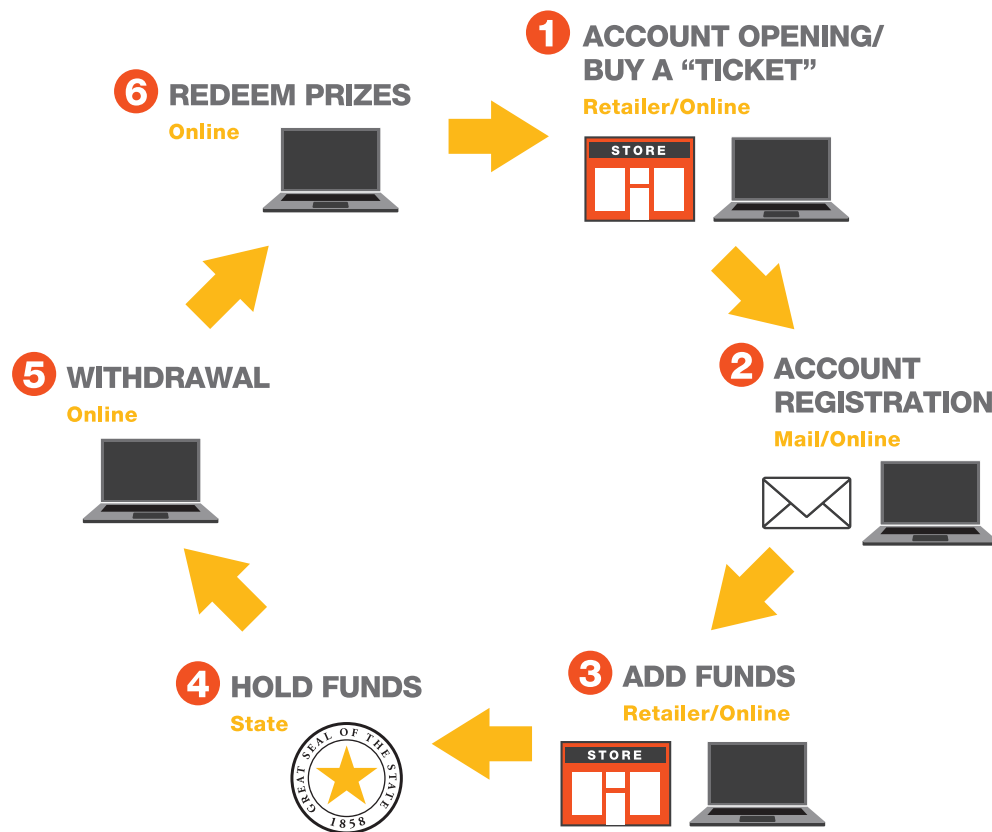
- 1) Buying a savings ticket.** A consumer walks into a lottery retailer or goes online to the state lottery website and decides to buy a savings ticket.
- 2) Account registration.** After a ticket is purchased, a consumer registers an account online, via mail, or text messaging.
- 3) Add funds.** After registering once, consumers will have an account that they can easily link to future ticket purchases so that funds will build in the account. Each ticket purchased qualifies a consumer for an entry to win monthly and annual grand prize drawings.

4) Hold funds. Funds are held for consumers by the state in either individual or pooled accounts. Consumers will only be eligible for drawings if funds are still in the account at time of drawing, and the number of entries based on the number of tickets purchased.

5) Withdraw funds. Consumers can withdraw funds, though some restrictions may exist as to when funds can be withdrawn. This can happen online.

6) Redeem prizes. Consumers can claim the value of their winnings – instant wins as well as drawings. They can choose to redeem their prizes for cash or retain them in their account. This can happen online.

The chart below illustrates this consumer experience with lottery savings tickets:



Conclusion

Opportunities to consume have gotten so simple, with almost no barriers to purchase and offers to buy thrown at us constantly. As we mentioned before, Minnesota is testing out lottery at gas pumps so as you pay for your gas, you can also choose to buy a scratcher for a chance to win. Imagine if we could refocus the technology and creativity around placing opportunities to buy with opportunities to save. That same gas pump now has the savings lottery ticket. So, as you pump you can also quickly pick up a \$15 savings ticket as a present for your child. Or, when you run into the convenience store to grab milk, you can quickly, impulsively, get that savings ticket for yourself. The experience, the ease, the fun are all still part of the package, but in this scenario you get to keep your money rather than risk it, and still enjoy the thrill of a potential win.

This paper has laid out the fertile ground the lottery channel offers that can entirely reframe the savings experience. So, the question is, why has it not happened yet? The infrastructure exists. The demand exists. The economics can work. The technology is available and, moreover, is already being invested in by many state lotteries.

What this game-changing concept needs is leadership from a state governor to take a chance to test it out. The potential gain is huge— from both U.S. and international experiences, we know the demand and impact of PLS offered by different channels. While there may be some risk to testing it out, the risk will likely not outweigh the potential financial benefits for savers. Most importantly, we see compelling examples of PLS impact and savings impact when offered through government channels.

Pressure is building on state lotteries to prove their value to states beyond revenue generation. Legislation to explore savings lottery tickets, to prohibit the sale of tickets to low-income consumers, and to require more “truthful advertising” are just some of the bills being introduced in state legislatures around the country. Demonstrating the ability to leverage the system for other public policy benefits could be an important part of the value of lottery to the state.

We leave this paper challenging a state governor, lottery director, or legislator to take on this idea. Be the first innovator and a leader in ensuring effective and accessible savings opportunities for your constituents by adding an additional positive public policy goal to the uses of the lottery channel. This untapped distribution channel may be the key to building the savings of millions of Americans.

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