

PRIZE-LINKED SAVINGS: Creating Financial Confidence and Opportunity



Doorways to Dreams Fund

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Creating savings is hard, especially for financially vulnerable populations. Saving for financial emergencies, such as unexpected trips to the doctor, and expected costs, such as school supplies, may feel out of reach. While saving for goals, like retirement or educational costs, can feel impossible for many people. The inability to save impacts consumers' mindsets and feelings of financial security.

In order to reach goals, a sense of financial self-efficacy where consumers feel in-control of their finances is important. Changing personal finance from a topic of dread and avoidance to one of hope and control is an important and difficult task. Products that offer an accessible entry point—both financially and psychologically—have an opportunity to help consumers take control of their own finances.

The Opportunity for Prize-Linked Savings

Doorways to Dreams (D2D) Fund has been exploring prize-linked savings (PLS) products. At the most basic level, PLS products encourage savings by making it fun and accessible. By rewarding savings behavior with chances to win prizes, PLS products can motivate individuals to start, and continue, to save. This can bring the benefits of saving for the future into the present, and help consumers aspire to more financially secure futures.

Save to Win™ (STW), the nation's first large-scale PLS product, launched six years ago in Michigan. STW is a balance-building share certificate (i.e., certificate of deposit) in which every \$25 saved is an entry to win a prize. Accountholders commit to build savings for a year-long term. If users withdraw before the end of the term, they incur a \$25 fee. STW has been used by more than 50,000 Americans to save more than \$94 million.



Excitingly, as D2D has continued to evaluate the success of STW, it has become clear that it is effective at encouraging savings and building financial confidence. Importantly, STW has impacted financially vulnerable populations in four ways: (1) Inspiring the use of committed savings products, (2) Building a savings habit, (3) Helping develop financial self-efficacy, and (4) Creating a financial cushion.

Inspiring the Use of Committed Savings Products

Incredibly, over 17,000 families have been among the 50,000 STW accounts opened since 2009. The majority of STW members report being financially vulnerable (they may be asset poor, low- or moderate-income, or non-savers). In 2013, this ranged from 62% (Nebraska) to 81% (Washington).

The use of committed savings products is out of reach for many financially vulnerable people. This is both due to product barriers, such as high deposit minimums for products, as well as psychological barriers, such as inexperience with products and a perceived inability to save. In D2D's user interviews, Crystal, a single mother of three who is rebuilding after a divorce, foreclosures, and repossessions, explained why PLS products are different:

"Save to Win has given me an option to save... I've never had a CD before and [I'm] seeing the advantage of being able to save that way... A couple of things [attracted me to Save to Win], that it was a low amount [to open], that you can do it in \$25 increments, then there's the prize money... The contest opened me up to consider a CD, when I'd never considered a CD before."

Save to Win accountholders view this product as something they can build their financial future on, with one saying that "I think [Save to Win] is a cool idea once you give it a try, because you never know how much [you] can save Even if...you're poor, then you still can say 'okay, there's a way for me to look at my future and even if it's a long time away, [it's] there and I have something to contribute to,' [Save to Win] helps me do that."

Building a Savings Habit

While opening an account is a crucial first step, the importance of continuing to deposit and build financial reserves cannot be understated. Creating a habit of depositing savings is incredibly important to developing financial confidence. The structure of the

product creates nudges to deposit at least \$25 per month (to earn entries for monthly prizes). The product itself allows for continual deposits but restricts withdrawals to encourage users to build a financial reserve.

In D2D interviews with STW accountholders, all said that they were depositing in \$25 increments to receive entries; according to one respondent: “I deposit every week. [I deposit] \$25, the entry for the prizes was a big part of it.” However, when the same accountholders were interviewed six months later, none remembered why they choose their deposit amount. This suggests that as accountholders grow accustomed to depositing into their STW accounts, the \$25-increment is built into a savings habit.

The withdrawal restrictions on the product help accountholders build financial reserves. Billie, a single mother, said: “Since I can’t touch it, I know that it’s just building, and that’s a good feeling.” Mildred, a city-worker, said: “Save to Win guarantees that you have [savings] because you can’t take it out, and for people like me, I need that.” D2D research shows that single parents in Michigan were able to build accounts with an average 11% increase in account balance during 2012.

Helping Develop Financial Self-Efficacy

Helping individuals build self-confidence with their financial decision making is difficult, but STW helps users feel more comfortable with their financial health. Sadie Mae, a 35 year-old police officer, said:

“Save to Win changed my whole life. Save to Win has made me think about my savings and spending. It’s just there, and I’m doing so much better. I have an emergency fund, I’m paying down my debt. I don’t even know what the prizes are anymore, but, Save to Win, it’s changed me; it’s changed how I feel about my future.”

As individuals build a savings habit within Save to Win, some are able to transfer that habit to other savings products with one user saying “I’m putting \$25 or \$50 per month into [another savings account] and I hadn’t been doing that [before] either... but it’s going to prove to me that I can do that one too because of [Save to Win].” The accountholder later said:

“Save to Win is helping me to save, period. Once you get there and start the process, I think that’s the biggest goal. Once you do it and start seeing your savings grow, it really does feel good, but Save to Win has another piece that was an inspiration to save and that was the possibility of winning more money to put in your Save to Win account. I think it works, I really do.”

An accountholder in her mid-60s, who spent more than her income, opened her first savings account with STW and shared that she planned to “start building another savings accounts so [she] can continue to maintain [the STW account] that does so much more for [her] than just a savings account.”

Accountholders describe STW as having a “psychological part of it that helps you manage your finances and build more savings, in addition to the savings in the account. It really serves a much larger purpose.” STW acts as a touchstone that consumers use to remind themselves that they can save. The development of financial self-efficacy is important to develop healthy financial habits outside of STW.

Creating a Financial Cushion

As consumers develop financial confidence and savings, they are better equipped to handle financial emergencies. One STW user, who was saving for the first time, said that she wanted to “have this money grow and build to a place where ... if the water heater blew out, this money is [there].” When consumers can handle emergencies with savings, they don’t have to use other sources to cover financial gaps.

D2D research has revealed trends in increased withdrawal rates in the summer from single parents. One single mother said that “in the summer months, when the resources weren’t coming in for the boys, I needed the [STW account] then.” STW accounts may be a crucial reserve, with huge implications for vulnerable children’s well-being.

STW has shown promise in helping consumers try new financial products. It helps users develop savings habits by setting norms of depositing activities supported by prizes. As consumers develop a habit of savings, they are able to apply their new financial confidence to other decisions and to better manage their finances. Finally, when consumers are faced with emergency expenses, they have financial reserves to fall back on so they maintain the financial confidence they’ve built through using Save to Win.

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