

PLAYING THE SAVINGS GAME: A PRIZE-LINKED SAVINGS REPORT



Acknowledgements

The Save to Win™ product is supported by a partnership between the Doorways to Dreams (D2D) Fund and the Michigan Credit Union League. The prize-linked savings concept on which Save to Win is based has been researched and championed by Peter Tufano, Dean of the Saïd Business School at Oxford University, former Harvard Business School Professor, and co-founder of D2D. D2D would like to acknowledge the generous support of the W.K. Kellogg Foundation, The Ford Foundation, the Center for Financial Services Innovation (CFSI), and the Walmart Foundation for Funding D2D's efforts to launch, research, and advance Save to Win; the Nebraska Credit Union League; and all participating credit unions in Michigan and Nebraska for working with us to collect data, being innovators, and being champions of saving.

D2D's work scaling the prize-linked savings concept has come in close consultation with our advisors and innovators in the field. D2D would like to thank and acknowledge the support of Joel Rosen, PayPerks, SaveUp, Mathew Greenwald and Associates, the Maryland CASH Campaign, Impact Alabama, and Opportunity Texas in thinking about new applications of the PLS concept.

This report was prepared by the Doorways to Dreams Fund's Prize-Linked Savings Team: Sarika Abbi, Amanda Hahnel, Nick Maynard, and Joanna Smith-Ramani. The team would also like to thank Tim Flacke and Courtney Flynn for their insights and design inputs.

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The Doorways to Dream Fund (D2D)

www.d2dfund.org

Doorways to Dreams Fund envisions a world where the financial system promotes lasting social and economic prosperity for every family and addresses this vision through innovation, incubation, and stimulation of new financial products and policies. D2D Fund strengthens the financial opportunities and security of low and moderate income consumers by working with the financial services industry, national non-profit groups, grassroots community agencies, and public policy organizations to generate promising ideas, pilot test systems and programs, build awareness of the needs and potential of low-income communities, and advocate progressive social and economic policies.

FOREWORD

As a social justice philanthropy, the Ford Foundation is committed to finding solutions to entrenched problems of poverty and economic mobility. In advancing this mission, we believe that financial services are essential tools that assist low-income families to manage their resources, make ends meet and build assets over time. Yet the current financial services marketplace in the United States too often fails to meet the needs of low-income and vulnerable households – and worse, often exploits those needs for short-term profit. For that reason, the Ford Foundation invests substantial resources in research and development to assist nonprofit and for-profit organizations develop new and better financial products that can help low-income families transact, save, borrow and invest in ways that can assist them to build assets. These innovations include different types of savings and credit products, alternative ways to improve credit histories, and mobile applications to manage household finances. Savings in particular play a critical role in helping families respond to emergencies, avoid getting trapped in a cycle of debt, and build for the future. Our approach in this work is to support a wide range of innovations, with an eye toward identifying and scaling those that benefit consumers and have a sound business case.

The D2D Fund has been a core partner with the Foundation in this effort. D2D's creative approach to innovation, based on an understanding of how consumers think and behave, has led to several exciting new financial product ideas, from the opportunity to purchase Savings Bonds with tax refunds, to emergency savings 'buckets' on prepaid debit cards. Prize-linked savings (PLS) is another example of creative innovation designed to help low-income families build assets and achieve their goals. In developing PLS, D2D capitalized on the appeal of sweepstakes and lotteries, making savings appealing and accessible.

With PLS, as with other research and development efforts, D2D began with pilots, gathered evidence of both sustainability and impact, and then identified systemic opportunities to roll out the innovations at scale. As this report describes, since its launch in 2009, Save-to-Win has demonstrated growth in the number of institutions offering PLS accounts, the number of savers, and average savings balances; has a strong track record in retaining savers year to year; and has worked for even the most vulnerable participants, including those with very low incomes and those who have never successfully saved before. In the process, D2D has learned valuable lessons about how to structure and market the accounts to maximize take-up by consumers and impact. Furthermore, D2D is also beginning to make a business case for PLS, built around new accounts, increased deposits and greater trust, which could lead to cross-selling of loans and other products.

That leaves the remaining question of whether PLS could achieve meaningful scale. D2D explores that question, considering a range of opportunities for scaling PLS, including through large financial institutions, state-sponsored lotteries, and even payment of debt obligations. The Ford Foundation encourages this kind of exploration, and looks forward to learning with D2D as it tests these and other approaches. In the end, only through willingness to try new ideas – coupled with rigorous data and a commitment to protecting and benefiting consumers – will we develop better ways to help low-income families build their financial futures.

Frank DeGiovanni
Director, Financial Assets
Ford Foundation
New York

INTRODUCTION

All too often, the act of saving involves sacrifice and self-denial. It's no wonder that when given a choice between saving and spending on something "fun," most Americans choose the fun. But if we are to make progress in rebuilding household balance sheets, Americans need a way a third way – an engaging product that powerfully bundles saving, entertainment, and a moment to dream. This bundle is not altogether different from what drives consumers to the \$60 billion lottery industry. Imagine how many people could be reached if saving was an exciting game, with no risk of losing?

Prize-linked savings (PLS) engages consumers to save by changing the savings experience. Savers experience immediate rewards of prizes and incentives. By doing so, PLS reframes the act of saving as fun – a game with real rewards, rules, suspense, and possibility. Features of the game can be customized to suit a variety of savings products and programs. The core PLS concept has no limit beyond creativity and can be applied in a variety of settings from banks and credit unions to prepaid cards and online financial management systems.

As the Doorways to Dreams Fund (D2D) has documented and argued over the past several years, the prize-linked savings (PLS) concept can promote and lead to positive financial behaviors. Our experience since 2008 has demonstrated that a PLS approach, attached to a variety of products and offered through a diverse set of channels: 1) increases social impact; 2) increases the ability to reach a diverse set of consumers; and 3) fosters innovation, as the core concept is translated to different environments.

In 2009, Michigan credit unions participated in the first scaled PLS-based program – "Save to Win" – in the U.S. and rewarded members who saved by entering them into various savings raffles. Annually, one member got the shock of a lifetime when he or she won a \$100,000 grand prize. Michigan credit unions increased their engagement with financially vulnerable consumers and kept them coming back for more – 64% of new savings accounts rolled over from one year to the next. The success of Save to Win Michigan inspired other states and entities to launch similar PLS programs to better serve consumers.

Since its pilot, Save to Win (STW) Michigan has grown to over 25,000 unique accounts saving more than \$40 million. The state of Nebraska signed on to STW at the beginning of 2012 and is showing promising gains. In its first seven months, Save to Win Nebraska has engaged 10 credit unions and opened over 1,300 member accounts. These STW accountholders have saved over \$1.1M, representing an average savings of \$857. Recent legislation has opened the doors for more states to follow Michigan and Nebraska as they bring innovation to sustainable savings programs.

The game frame worked into PLS products has nurtured positive attitudes towards saving and motivated consumers to save for the long term. But, what is next for PLS in the U.S.? How can we translate insights from STW and other models into other scalable and sustainable products helping increase Americans' financial security and well-being?

After examining lessons from Save to Win and the U.S. lottery industry, D2D believes one promising future for PLS involves a lottery-based product. A new PLS lottery ticket could advance the savings game concept, creating a “no-lose lottery ticket” offered by the experts in games - state lotteries. A consumer simply buys a designated PLS lottery ticket and the funds are held by the state in a savings account. The ticket is a “win-win” because even if a prize isn't won, the entire cost of the ticket goes towards a savings fund the consumer can build and use for their financial needs. The PLS lottery ticket will reach a wide audience with the chance to win through saving, without the risk of loss, generating excitement and reward-anticipation on a scale not previously possible.

Because PLS explodes the age-old self-denial frame around saving, it invites innovation and creativity. The approach has demonstrated its potential power by integrating into a variety of different systems. In the U.S. this experience is being tested and innovated through multiple applications discussed in the paper:

- **Financial Institutions**
- **Tax Preparers**
- **Employers**
- **Online / Technology-Based**
- **State Lotteries**
- **Financial Behaviors Beyond Savings**

A powerful core insight cannot be fully mined by one constituency or one group. In the short time since Save to Win has highlighted the PLS idea in the US, multiple offshoots, derivatives, and flavors have already emerged, as stakeholders with new perspectives apply their own experience to create new variations and new applications. We are analyzing the broader lessons of reframing financial behavior change as exciting, rewarding, entertaining and game-like. Join us in studying this phenomenon, learning from leaders and innovators, and imagining what further evolution and innovation is possible.

SAVE TO WIN IN MICHIGAN

What is Save to Win?

Prize-linked savings (PLS) products recognize the power of behavioral principles to increase savings. Consumers become more engaged and excited about saving, a traditionally difficult and mundane activity, through the use of prizes and competitions. Save to Win™ (STW)¹ is an innovative prize-linked savings product that launched in 2009 with eight pilot credit unions in Michigan and has expanded to 58 credit unions in Michigan in its fourth year. STW has drawn upon many successful international examples of prize-linked savings but was the first large-scale PLS product in the United States. In STW, participants earn chances to win cash prizes by saving in a 1-year balance-building share certificate (i.e. certificates of deposit) that accrues interest. The more participants deposit the more chances they have to win, and the more they save!

STW was designed to have low barriers to entry for low and moderate income (LMI) consumers. To open the CD, individuals only need \$25 dollars and earn an entry into the raffle for every \$25 saved per month. All deposits are guaranteed and earn interest for participants, allowing for the fun of winning while eliminating any risk to their principle. Entries are capped at 10 per month (or equivalent to \$250 in deposits) in order to create a more equal winning opportunity for small savers. Each entry qualifies individuals for monthly prizes and annual grand prizes totaling \$100,000.²

STW has grown to over 25,000 unique accounts saving more than \$40 million from 2009-2011.³ Save to Win has demonstrated the power and continued success of Prized Linked Savings in the United States and showcases the tremendous opportunities to scale the product nationally.

¹ Save to Win is a registered service mark of D2D Fund, Inc.

² For more information on the Save to Win account or the raffle rules, visit www.savetowin.org.

³ Due to the difficulty of collecting data for analyses purposes, this represents 97% of all active accounts in 2011.

Key Evaluation Metrics

D2D works to encourage savings by creating innovative financial products and services that engage consumers and ultimately lead to behavior change. As Save to Win and prize-linked savings products continue to grow, Michigan's experience provides an illustrative example of this mission in action. To understand how STW achieves this goal and what improvements can be made, this section addresses the following key questions:

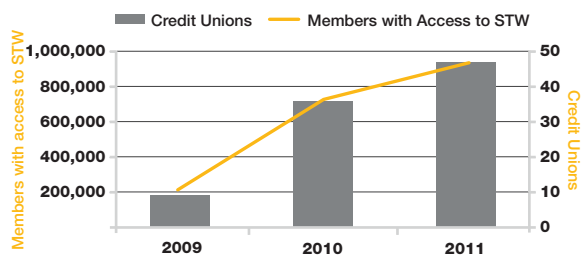
- 1) Increased Access:** How has the product grown and how many consumers are reached by STW?
- 2) Continued Participation:** Did STW motivate existing accountholders to continue participating and saving?
- 3) Service to Financially Vulnerable Participants:** Are LMI consumers continuing to participate and save as STW grows?
- 4) Financial Capability:** Are participants engaged to deposit regularly, build savings and develop a savings habit?

I. INCREASED ACCESS

In its third year in Michigan, Save to Win continued to attract new credit unions to offer the product and new consumers to open accounts and save. In 2011, the product was available at 47 credit unions. As of December 2011, over 900,000 credit union members had access to STW accounts and the average penetration rate stood at 2.0%. By the end of 2011, there were 16.2 thousand accounts with average account balances of \$2,109.

Since 2009, access to the STW product has expanded dramatically. The number of credit unions has increased by 422% and the number of credit unions members that have access to product has increased by 331%. With 308 credit unions in Michigan, there is still potential for growth in coming years.

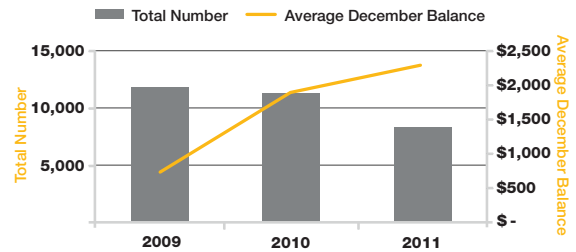
INCREASING ACCESS TO SAVE TO WIN



STW continued to attract new consumers with over eight thousand new and active accounts in December 2011. These accountholders had saved a total of \$18,365,362, averaging \$2,263 per saver.

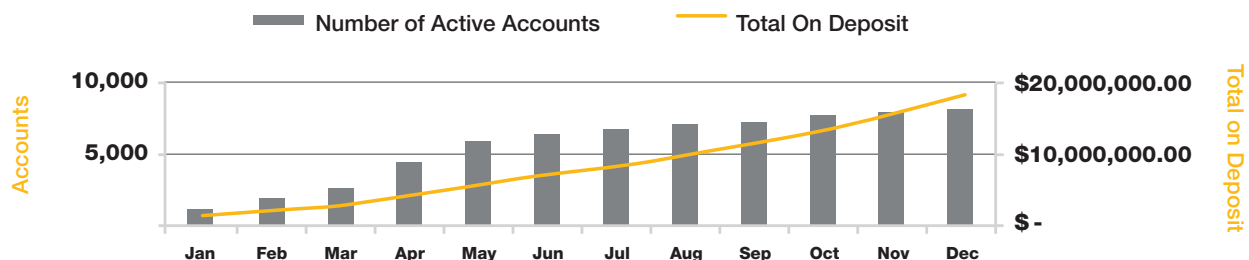
Although the total number of new accounts opened has decreased from 2010 to 2011, the average balances of new accountholders have risen, showing that the product is continuing to attract and engage new accountholders in saving.

NEW ACCOUNTHOLDERS VS. AVERAGE ACCOUNT BALANCES⁴



As STW continues to expand, it successfully attracts new credit unions, additional participants, and high volumes of savings. These findings demonstrate the continued popularity of the Save to Win product in Michigan and its staying power as it continues into the future.

2011 STW NEW ACCOUNTHOLDERS AND TOTAL ON DEPOSIT



⁴ Average account balances based on active accounts open in December of their corresponding year.

II. CONTINUED PARTICIPATION

While attracting new STW accountholders is important to the product's continued success and expansion, maintaining continued participation from existing accounts is also critical to the long-term success of the product. Over the past three years, there has been strong, continued participation by existing accountholders showing the potential stickiness of STW.

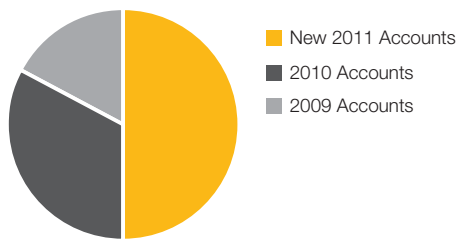
Although the STW account is designed as a one year, balance-building CD, the opportunity to reopen accounts or rollover savings at the end of the year can motivate participants to build medium and long-term savings and to cement healthy savings behavior. D2D describes this behavior as "rolling over" - i.e. the number of accounts that are open in December of one year that appear again in the following year. The number of participants rolling over their STW accounts has increased from 54% in 2010 to 64% in the 2011 data.⁵

ROLLOVERS IN SAVE TO WIN ACCOUNTS

| | 2009-2010 | 2010-2011 |
|---------------------------------------|-----------|-----------|
| Percentage of Accounts "Rolling Over" | 54% | 64% |

The participation of rollover accountholders was so strong, that in December 2011 half of the total active accounts were from accounts originally opened in 2009 or 2010. It is clear that as STW grows, it continues to retain and remain attractive to accountholders who joined in previous years.

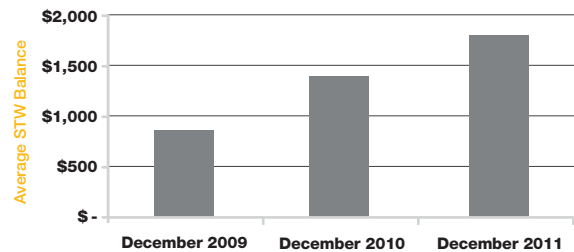
BREAKDOWN OF CURRENT ACCOUNTS BY YEAR ORIGINALLY OPENED AS OF DECEMBER 2011



⁵ In 2010, three of the pilot credit unions were able to calculate rollover rates in their more traditional 1-year CD products from 2009 to 2010. The weighted average rollover rate at these credit unions for STW was 81% versus 51% for their traditional 1-year CD.



It is especially important to highlight that many of the individuals who started in STW's pilot year continue to stay actively engaged. The percentage of 2009 accountholders that remained open in December 2010 and continued to 2011 was even higher than overall accounts rolling over from 2010 to 2011 (71% compared to 64%). These 2009-origination accountholders continued to build savings between years and by the end of 2011 had accumulated \$1,779 in their accounts.



AVERAGE STW BALANCE FOR ACCOUNTHOLDERS FROM 2009 (ACTIVE DEC '09-DEC '11)

III. SERVICE TO FINANCIALLY VULNERABLE PARTICIPANTS

As Save to Win expands, there continues to be strong, positive impacts on financially vulnerable consumers, a key goal of the product. After three years of STW, financially vulnerable accountholders continue to hold Save to Win accounts and grow savings throughout 2011.⁶ Groups that typically see lower savings rates including single parents, low and moderate income consumers, individuals with less than \$5,000 in assets, and self-described non-regular savers are of particular focus to the success of STW.

For 2009 participants that continued into 2010, there is no difference in the rollover rates between financially vulnerable accountholders and non-financially vulnerable accountholders with approximately 67% of these accountholders still holding active accounts in 2011. It is encouraging that financially vulnerable accountholders seem to be experiencing the same level of stickiness with the product as non-financially vulnerable accountholders.



Richard M. – July 2012

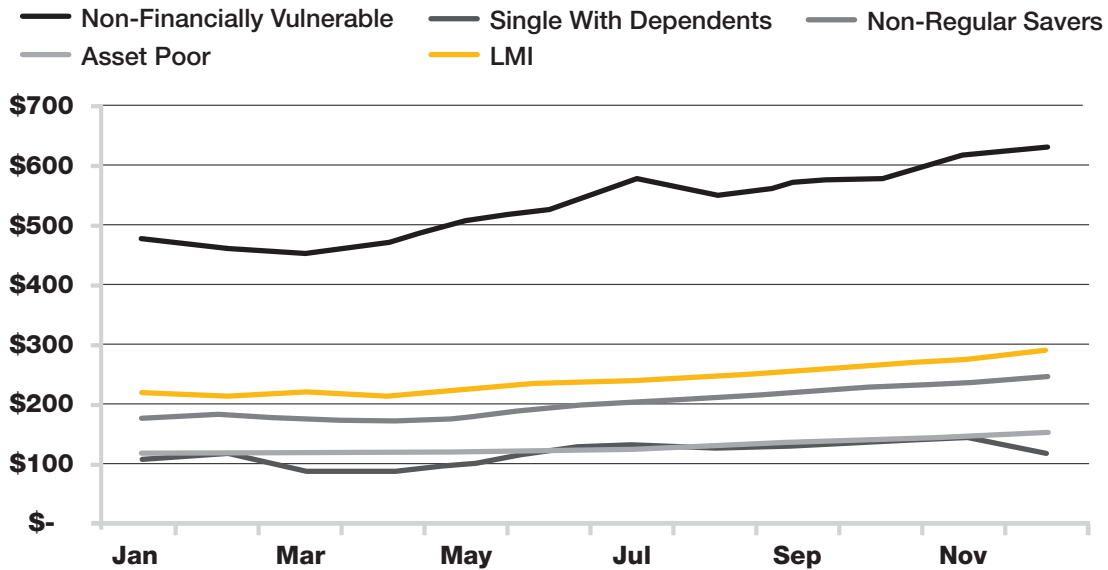
2011 ANNUAL AVERAGE END BALANCE GROWTH FOR FINANCIALLY VULNERABLE ACCOUNTHOLDERS

| Financially Vulnerable Group | Definition | Annual Growth in Average Account Balance |
|------------------------------|---|--|
| Non-Savers | Individuals who reported that they were not regular savers before opening their Save to Win account | 38% |
| Asset Poor | Individuals with \$5,000 or less in financial assets (excluding home equity) | 31% |
| Low-to-Moderate Income (LMI) | Individuals with household income less than \$40,000 | 34% |
| Single with Dependents | Single parents with one or more children | 7% |

⁶ To determine whether STW continues to serve these consumers, D2D has examined the composition of STW accounts by tracking 2009 accountholders who completed survey about their financial habits and behaviors. It is assumed that 2009 survey responses are still representative of respondents' financial conditions.

Not surprisingly, average balances are substantially lower for financially vulnerable participants than their non-financially vulnerable counterparts. However, similarly to non-financially vulnerable accountholders, financially vulnerable consumers are continuing to engage with STW and grow savings in their accounts. While the growth varied, the low-to-moderate income, asset poor and non-savers had annual growth rates exceeding 30%. While single with dependent children struggled more to save, they successfully maintained their savings and, on average, grew them by 7%.

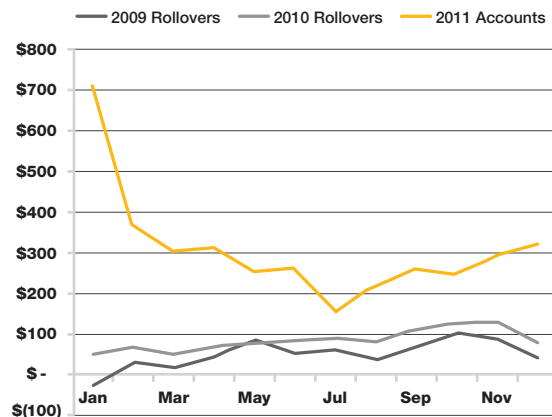
AVERAGE STW MONTHLY BALANCES 2011



IV. FINANCIAL CAPABILITY

Save to Win has grown tremendously in its first three years, impacting thousands of Michigan accountholders by helping them save millions. As STW continues to expand, there are opportunities to increase its effectiveness and reach as a consistently engaging savings product that helps consumers develop a more regular savings habit. Average net deposits could be boosted from 2011 levels as D2D continues working to increase engagement for all accountholders and boost multi-year participants' savings rates through innovations in product design and marketing initiatives. Increasing the amount and quality of marketing campaigns and interactions with accountholders may increase the effectiveness of the product. Additionally, experiments with instant win prizes and prize design could increase long-term engagement with STW.

AVERAGE NET DEPOSITS⁷ IN 2011 BY YEAR OF ACCOUNT OPENING OF ACCOUNT OPENING



⁷ Average Deposits were calculated by taking the difference between ending and beginning balances in each month. 2010 Rollovers are inclusive of 2009 rollovers.

Prize Design

For the 2012 Save to Win prize structure, D2D worked with MCUL to change the prize design as a result of findings from a 2011 study on product design by D2D⁸ that found that respondents valued more chances to win at lower prize-levels. Additional findings from STW data analysis added more compelling findings that prize-winners, regardless of prize amount, saved more regularly and kept STW accounts open longer.⁹ “For 2012, Michigan STW offers monthly prizes totaling between \$4,000 and \$4,500 (80 to 90 chances per month to win \$50) and ten annual prize winners of \$10,000 dollars each (totaling \$100,000). This contrasts with 2011’s annual prize, when one \$100,000 prize was offered. While it is too early to know the impact of the new prize structure, product design changes that produce more winners have the ability to increase consumer engagement and help strengthen STW’s impact.

For some accountholders, monthly and annual prize drawings are too infrequent to motivate consistent savings. However, a 2012 Nebraska survey of accountholders revealed that 59% of respondents believed the chance to win \$50 instantly when they deposited would increase their savings rate. Rewarding the act of saving and not just the amount of savings has the potential to really engage consumers in more frequent savings. To date, instant prizes have not been implemented or tested as part of overall prize design. In the future, their addition should be considered to help increase accountholder engagement.

Interactive Marketing

Accountholders are also open to receiving more reminders and targeted marketing about saving in their accounts. In a 2011 Michigan accountholder survey, 27% of respondents said they would be interested in receiving email reminders to save. Nebraska STW accountholders responded even more favorably in a 2012 survey with 41% of accountholders expressing interest. Further possibilities of a consumer-facing interface that allows for more social engagement and competition could increase the effectiveness of marketing efforts.

The success of STW in Michigan has demonstrated the consumer demand for a savings product and opened up new opportunities to grow prize-linked savings in the United States. Consumer take-up of the account is strong, but opportunities for further growth exist both within participating credit unions and by reaching new credit unions and non-credit union customers. Although, there are indicators that more account-holders are keeping the product between years, the opportunities for increased marketing initiatives to further engage accountholders and help boost the savings rates of more financially vulnerable participants remain important.

⁸ Boyd, Heidi and Maynard, Nick. “Prize-Linked Savings and Financially Vulnerable Americans: Insights from a Five-State Study,” *Doorways to Dreams Fund* (September 2011). Available at www.d2dfund.org.

⁹ “A Win-Win For All: Growth of Save to Win in Michigan,” *Doorways to Dreams Fund* (2011). Available at www.d2dfund.org.

SAVE TO WIN NEBRASKA

With the success of Save to Win in Michigan and legislative victory in 2011 that enabled credit unions in Nebraska to offer savings promotion raffles, the Nebraska Credit Union league and nine credit unions in the state were motivated to launch their own Save to Win product. Nebraska launched STW in January 2012 with the same product design as Michigan (a balance-building CD) and eligibility for prizes (1 raffle ticket earned for every \$25 deposited, capped at 10 tickets a month). Applying insights from the Michigan product that winning, irrespective of prize-size, engages consumers in better savings behavior and D2D's research that \$50 and \$100 prizes would motivate more financially vulnerable consumers to engage in saving,¹⁰ Save to Win Nebraska's prize structured was designed with:

- A grand prize of \$25,000, awarded to 1 saver annually
- Monthly league prizes of \$1500, rewarding 15 or 30 savers monthly with \$100 or \$50
- Monthly credit union prizes (voluntary and designed by each credit union for their members)



¹⁰ Boyd, Heidi and Maynard, Nick. "Prize-Linked Savings and Financially Vulnerable Americans: Insights from a Five-State Study" Doorways to Dreams Fund (September 2011). Available at www.d2dfund.org.



Engagement in Nebraska

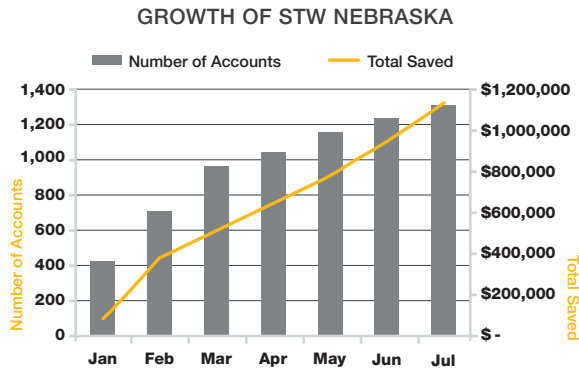
The success of the launch in Nebraska is highlighted by the engagement of credit unions and new account-holders to the product. In its first seven months, from January to July 2012, STW Nebraska has engaged 10 credit unions and 1,311 consumers to open accounts. These STW account-holders have saved over \$1.1M, representing an average savings of \$857.

Despite the non-depository environment faced by financial institutions, participating credit unions saw the value and importance of the product, with nine credit unions joining in January and one in July 2012.

"We need loans too, but with Save to Win, it gives members the opportunity to save money, and also get incentives for saving. This not only gives our members this opportunity, but it draws in new members.

Deposits build trust in people. When you encourage people to save money to win money, they realize you are not just wanting their money for the CU's gain, you are wanting them to advance themselves. All of the sudden they're asking 'What else do you have? What other services can you provide to me?' This builds trust which in return can bring in loans."

– Heather Cook,
Omaha Police Credit Union



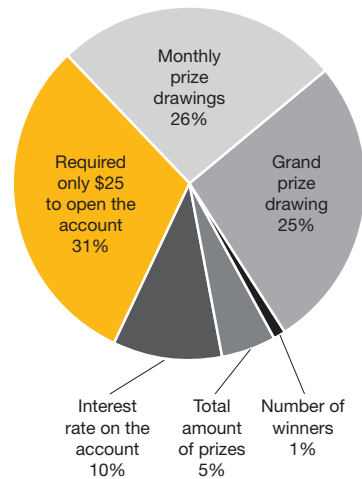
With the current recession, consumers now more than ever need savings products that are not only easily accessible but also fun and engaging. Fifty percent of the account holders surveyed¹¹ in Nebraska report having no or insufficient rainy day funds to cover three months' worth of expenses, highlighting the financial vulnerability of many consumers and the need for savings to cope with the financial shocks that take place. It is these exciting features of STW, the prize drawings and the low barriers to open and continue saving, that have attracted consumers to take-up an account and build their savings.

While the growth in Nebraska represents a smaller penetration rate than what was seen in Michigan by July of its pilot year (1.1% in Nebraska¹² vs. 3.4% in Michigan), the average amount saved in Nebraska shows that although Nebraska's product might be reaching less consumers overall it may be impacting those reached more deeply. Average savings of \$857 in seven months have well exceeded the average savings of \$734 achieved in the first year in Michigan.

Diversity of Consumers Engaged

With the first expansion of STW complete in Nebraska, it is critical to understand whether STW in new states has the potential to attract a diversity of consumers and, as it scales, if STW still benefits low-to-moderate income and asset poor consumers. Similar to Michigan's product, STW in Nebraska has successfully attracted both financially vulnerable and non-financially vulnerable consumers.

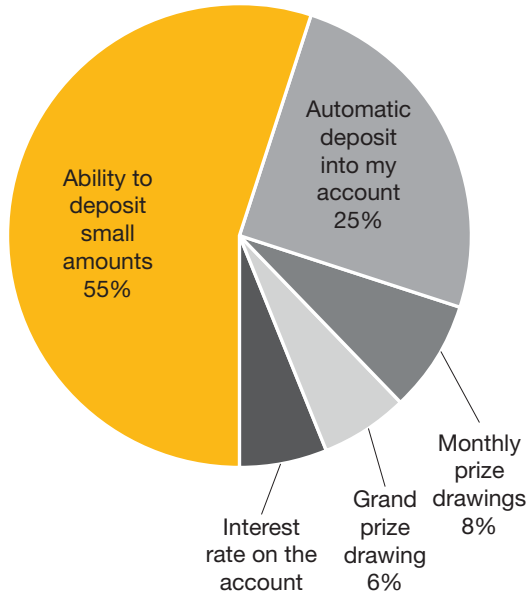
MAIN FEATURE ATTRACTING CUSTOMERS TO OPEN A STW ACCOUNT



¹¹ Based on Nebraska survey responses through 8/18/2012. As of 7/31/2012, survey respondents represented 51% of account holders.

¹² Excludes one credit union that launched in July 2012.

MAIN FEATURE THAT MAKES SAVING EASY IN THE STW ACCOUNT



The findings in Nebraska are promising for new states launching their own Save to Win or other prize-linked savings products. The collaborative model continues to be successful with the product aligning well, and thus attracting, credit unions to participate. And, the findings shows the potential of STW in new states to positively impact consumers, by attracting and engaging new savers, helping significantly deepen the savings pocket of consumers and reaching more financially vulnerable consumers.



FINANCIALLY VULNERABLE GROUPS AS A PERCENTAGE OF TOTAL NEBRASKA STW MEMBERSHIP¹³

| Financially Vulnerable Group | Definition | % |
|------------------------------|---|-----|
| Non Savers | Individuals who reported that they were not regular savers before opening their Save to Win account | 43% |
| Asset Poor | Individuals with \$5000 or less in financial assets (excluding home equity) | 31% |
| Low-to-Moderate Income | Individuals with household income less than \$40,000 | 31% |
| Single with Dependents | Single parents with one or more children | 8% |
| Limited Rainy Day Funds | No rainy day funds or insufficient funds to cover three months' worth of expenses | 50% |

PLS CONCEPT AT TAX-TIME

D2D has worked with partners to test the application of the PLS concept in different channels. Tax time seemed like a natural and strategic time of year to test a PLS product, as many Americans, especially those eligible for tax credits, can receive tax refunds that amount to as much as 20% of their annual incomes. For many, it is the only time all year that they can save any funds. Moreover, tax-time provides a universal savings option right on the tax form through the purchase of U.S. Savings Bonds.¹³ Through the Bonds Make It Easy Campaign,¹⁴ D2D connected with three state-wide organizations that provide free tax-preparation services to test whether a PLS layer could increase savings in U.S. Savings Bonds at tax time.

Impact Alabama

In 2011, Impact Alabama, a nonprofit organization dedicated to substantive service-learning projects for students, led the way with the first large-scale tax-time PLS promotion. Through Save Now, Win Later, tax filers could earn a chance to win a \$20,000 grand prize and two \$1,000 prizes (awarded in February and March) for every \$50 invested in savings bonds between January 15th and April 14th saved through the tax form or direct through the government. The number of chances to win was unlimited. 553 low-income taxpayers purchased bonds totaling over \$51,000 in savings. In a survey conducted after tax season, 56% of respondents said the contest contributed to their decision to save in tax-time savings bonds. The success of Impact Alabama's SaveNow, WinLater promotion in tax season 2011 helped inspire additional partners to offer savings promotions in the 2012 tax season. Impact Alabama has continued to offer SaveNow, WinLater and plans to offer it next season as well.

Opportunity Texas:

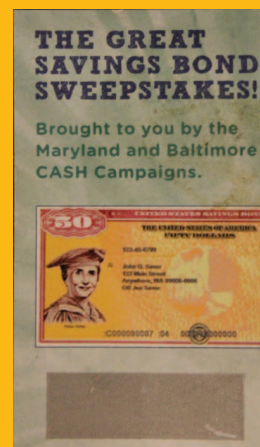
Opportunity Texas, a statewide initiative to move families towards greater financial security, offered a \$25 grocery or discount store gift card to tax filers who saved at least \$50 in U.S. Savings Bonds at tax time. In 2012, three times more tax filers saved than in the previous

year and the amount saved was doubled, with 942 taxpayers saving more than \$143,000.¹⁵ Eighty percent of participants in the program were new tax-time savers.

Maryland CASH Campaign:

In 2012, the Maryland CASH Campaign, a statewide network of organizations that promote financial stability, offered a tax-time savings bond promotion that comprised two parts: the Scratch-off Ticket Incentive and the Cash Prize Incentive.¹⁶ Taxpayers who saved \$50 or more of their refund in a U.S. Savings Bond received a Maryland CASH customized scratch-off ticket for a chance to win five or ten dollars cash instantly as well as one entry per every \$50 saved for a chance to win one of two \$500 cash prizes.¹⁷ To engage the tax preparers, the promotion also offered incentives for the tax site partners; sites with the highest rates of bonds sold were awarded a \$2,000 grant and a pizza party for staff and volunteers.

As a result of the promotion, Baltimore CASH increased the dollars saved in bonds from the prior tax season by 561%. In fact, 72% of Maryland and Baltimore CASH bond buyers had not purchased a bond in the previous year. Their experience highlighted the ways in which PLS can be layered into an existing product infrastructure and provide enormous impact. For every \$1 spent in their promotion, just under \$22 was saved in a bond. In total, an investment of just \$2,000 in promotion prize money yielded \$43,650 in committed savings for 298 people.



Maryland CASH Savings Promotion Ticket

¹³ As of the 2010 tax filing season, tax filers receiving more than \$50 in refunds could deposit all or a portion of their refunds into U.S. Savings Bonds using IRS Form 8888.

¹⁴ See "2010 Savings Bond Report," D2D Fund (2010) for more information. Available at www.d2dfund.org.

¹⁵ This number includes the value of the incentives.

¹⁶ Eight organizations participated in the Savings Bond Campaign 2012 (Shore Up! Inc., Harford Community Action Agency, Montgomery County Community Action Agency, Human Services Programs of Carroll County, Inc., Housing Authority of the City of Frederick, Howard County VITA, Prince George's Community College and the Baltimore CASH Campaign). Many of the locations were new to promoting bonds and this campaign helped engage reluctant staff and volunteers.

¹⁷ Maryland CASH created and printed their own scratch-off tickets for the promotion (see picture). The scratch-offs were not associated with the Maryland lottery or any other official lottery, but rather were a sweepstakes sponsored by Maryland CASH.

PLS CONCEPT IN STATE LOTTERIES

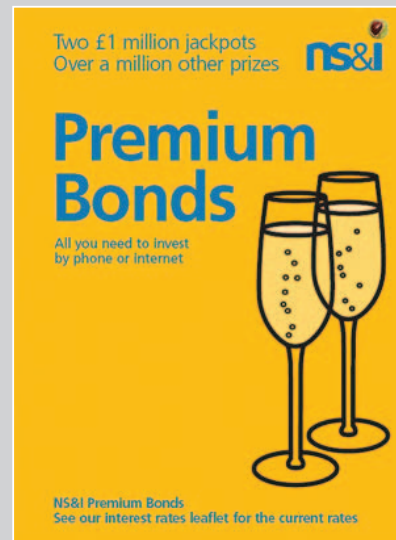
Based off of insights from Save to Win and lottery play, D2D believes that state lotteries offer a unique and ideal distribution channel to offer a PLS product. Imagine a state lottery product that offers a “win-win” premise for consumers. A consumer buys a “savings ticket” or “no-lose” lottery ticket. The funds are held by the state and the more tickets a consumer buys, the more chances they have to win. Even if they are not a prize winner, their entire principle (the cost of the ticket) is protected and they have that savings to use for their own financial needs. A product offered through the lottery could 1) be designed to fit in well with other lottery products and generate high levels of excitement, 2) attract a wider and diverse set of consumers with the chance to win, without the risk of losing, and 3) reduce access barriers by being available at existing lottery retailers and online. Additionally, 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 locations in 44 states, 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 PLS 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.
- **Consumer preference** – In a 5-state survey conducted for D2D about PLS preferences, some consumers indicated they would prefer to save in a PLS lottery product.¹⁸

¹⁸ Boyd, Heidi and Maynard, Nick. “Prize-Linked Savings and Financially Vulnerable Americans: Insights from a Five-State Study,” *Doorways to Dreams Fund* (September 2011). Available at www.d2dfund.org.

Successful Government Sponsored PLS Products

Opportunities to save can and should come from both the private and public sector. 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 UK federal government. Today premium bonds are held by more than 23 million—one in three—Britons valuing over £43 billion. Premium bonds can be purchased at post offices, by mail and online throughout the UK. The combination of government backing and distribution through a public institution (the Post Office) has made Premium Bonds wildly popular. In fact, in 2011 when other bond sales dropped, Premium Bond sales increased.¹⁹



UK National Savings and Investments Brochure

¹⁹ “Britons Invest £1.5 Billion on Premium Bonds.” *Annuities4u*, 8 July 2011. Web: www.annuities4u.com/280/280.

Importantly, for many consumers, lottery is already viewed as a form of financial planning. In fact, in one survey, 38 percent of those with incomes below \$25,000 thought that winning the lottery represented the most practical way for them to accumulate several hundred thousand dollars.²⁰ While chances of winning the lottery are low, people use the lottery as a source of hope of what their financial life could be.²¹ Imagine if this hope could be turned more into a reality through a win-win lottery product?

Lottery is also a big industry, in both reach to consumers and sales generated. In 2010, lottery sales in the U.S. totaled almost \$50 billion. While the lottery attracts a diverse market (over half of Americans played the lottery in the last year), as much as 80% of lottery revenue comes from households earning less than \$50,000 per year.²² Moreover, according to recent estimates, households that earn less than \$12,400 a year spend 5% of their income on lotteries.²³ Given the existing market-base and the potential to attract new players through the PLS ticket, a “no-lose lottery” could be a game-changer in increasing the assets of low-to-moderate income consumers.

Are Americans Interested in Saving through the Lottery?

D2D recently completed original market research to learn more about consumer demand, product design, and market impact of a prize-linked savings (PLS) lottery product offered through state lotteries.²⁴ A national sample of consumers was surveyed including, frequent, infrequent and non-lottery players to determine if the product has a different appeal or different potential impact on a particular group. Just over half of respondents (55%) earned between \$10,000 - \$60,000 in annual income. The national survey indicated that overall **there is a strong potential market for a PLS lottery ticket.**



Mock-Up of a Savings Lottery Scratch Ticket

²⁰ “How Americans View Personal Wealth vs. How Financial Planners View This Wealth,” *Consumer Federation of America and The Financial Planning Association* (2006).

²¹ Wilson, Jacque. “Why You Keep Playing the Lottery.” *CNN. Cable News Network*, 15 Aug. 2012. Web: www.cnn.com/2012/08/15/health/psychology-playing-lottery-powerball/index.html.

²² Peter Tufano, Nick Maynard, and Jan-Emmanuel De Neve, “Consumer Demand for Prized-Linked Savings: A Preliminary Analysis,” (2008).

²³ Wilson, Jacque. “Why You Keep Playing the Lottery.” *CNN. Cable News Network*, 15 Aug. 2012. Web: www.cnn.com/2012/08/15/health/psychology-playing-lottery-powerball/index.html.

²⁴ The national survey was conducted by Mathew Greenwald & Associates in June 2012. A total of 912 respondents were surveyed.

Highlights from the survey include:²⁵

- **Strong demand for a savings lottery ticket exists amongst lottery and non-lottery players.**

Overall, Fifty-six percent of respondents had a positive reaction to the concept of a savings lottery ticket and 50% expressed an interest in buying them. A strong interest was expressed by both current lottery as well as non-lottery players, showing the potential of the channel to attract a diverse set of consumers.

- **Consumers are attracted to the features of the product.**

While the channel is ideal, it is also critical to design the product with features that are attractive and accessible to consumers, and help them save and build savings. With that in mind, we asked specific questions to gauge ticket price, potential holding periods and prize size and frequency and saw positive responses by consumers to these features

- **Consumers are motivated to gift lottery saving tickets.**

From D2D's work with savings bonds at tax-time, we have learned that consumers like to gift savings to loved ones and when gifting, end up saving more. Similarly, this product has potential to be a way to "gift" savings – 35% of respondents interested in buying the tickets responded that they would purchase for their spouse/partner and 28% responded that they would purchase for their child.

- **Consumers can build savings through the purchase of lottery tickets.**

The design of a PLS lottery ticket has the potential to encourage regular and frequent savings ticket purchases. Because of the ability to build up the savings incrementally, as well as the ease of access to it, respondents indicated that they could save an average of \$50 a month in savings tickets. This product has potential to help the average consumer save \$600 per year.

- **Consumers are interested in seeing more savings opportunities from the government.**

Consumers believe there is a role for both the private and public sector in providing savings opportunities. In fact, six out of ten respondents (61%) believe the state and federal government should do more to encourage more people to save.

²⁵ D2D will be publishing more results from the survey with additional analysis in a forthcoming paper due December 2012. The paper will be available for download at www.d2dfund.org.

Potential for Impact:

A “no-lose lottery ticket” is really not much different than the Save to Win product in Michigan and Nebraska, but it offers the potential for broader reach, easier access, already existing infrastructure. Those features would lead to enormous impact. As noted above, survey respondents indicated that on average, they would say \$50 a month in these tickets, or potentially \$600 a year. If every state offered a PLS lottery ticket, this could amount to \$3.5 billion in savings each year.²⁶

Moreover, the lottery already has existing relationships with financial vulnerable consumers that could be leveraged for a deeper impact. According to recent estimates, LMI consumers account for a large percentage of existing lottery sales and are spending a noticeable amount of their annual income on lottery purchases. If, through their relationship with the lottery, they were exposed to a lottery savings ticket that either captured a small percentage of their current lottery spending or captured new money for a savings ticket, a significant positive financial impact would be realized. The graphic below illustrates this potential of these lottery saving tickets using a very low income lottery player as an example.

Who will be the first adopter?

D2D has been working with various state lotteries, lottery industry representatives, and other technical experts to complete the necessary steps to build a PLS lottery product. The climate is ripe to develop and test this product. While the economy is showing some signs of improvement, consumers are still struggling to rebuild (or simply build) their savings in a product that fits their current financial needs.

²⁶ Assumes 10% of existing lottery playing population saves \$300 a year in tickets.



ESTIMATED IMPACT OF A PLS LOTTERY

Simply stated, there is demand for savings generally and demand for savings products specifically that allow for small, incremental deposits, gifting, and are entertaining or fun. The lottery industry is also making significant investments in their infrastructure to expand to online gaming, card-based lottery, and other innovations. These investments can be leveraged more cost-effectively and sustainably to build a PLS lottery product. D2D is beyond the ‘imagining the potential’ phase and knows that there is a short timeline until this product gets to market and is accessible to the millions of consumers that could benefit from it.

PLS DESIGN INSIGHTS

The success of Save to Win and international prize-linked savings products has created momentum with many applications of PLS popping up in the U.S. and abroad over the last couple of years. The learnings from this work provide valuable design insights for both PLS products and non-prize linked saving products:

1) Drive Engagement.

Consumers are motivated by actions that are immediately gratifying and fun, but often savings is not designed with an emphasis on engaging consumers. Designing products with this key component in mind has the potential to motivate consumers to take actions towards savings and actually enjoy an act that will benefit their financial well-being. Engaging consumers can come in many forms, from prizes and raffle tickets to creating a purchasing or gifting experience out of savings.

2) Create low barriers to access.

Products designed with low barriers to access make it easier and less risky for consumers to try a product out before fully committing. This is crucial when designing new products or offering savings through new distribution channels. Even if the product is not fully understood or comes through a channel that is new to savings for consumers, they are more likely to take it up if the barrier to trying it out is low.

3) Make continued savings easy.

Many LMI consumers don't have significant lump sums or high levels of discretionary income to commit to saving products, but can set a little bit aside when made available. Having access to a product that provides this flexibility to save small increments over time allows consumers to save when funds are available.

4) Create more winners.

Everyone enjoys winning, whether it's \$10,000, \$5 or a non-monetary prize. In Save to Win, winners (irrespective of prize size) have been more engaged than non-winners in the product and winning has improved the stickiness of the product. When designing products with winners, try to spread the experience of winning across as many savers as possible making everyone feel like they can win and producing as many winners as possible.

Save to Win offers a strong, real-world example of how prize-linked savings products can have great impact on savings when deployed through the financial services industry. Research reviewed above also indicates that the lottery channel offers tremendous opportunity for PLS products to reach and positively impact financially vulnerable consumers as well. But there are many other opportunities to layer-in the prize-linked savings concept to increase the savings behavior of all consumers, especially more financially vulnerable Americans.

Landscape of PLS Models

Starting with the core concept—a savings account that affords the account-holder the opportunity to win prizes—, D2D has explored areas where various PLS derivatives can be applied: debt repayment tools, pre-paid cards, personal financial management tools, large financial services firms, and U.S. Savings Bonds. D2D believes these channels will reframe consumers’ financial behaviors beyond traditional savings and has the ability to scale to a much larger market of consumers.

The Implementation of a Common Concept

As each of these models are explored below, it is important to keep in mind the common components of prize-linked savings. For PLS products to work effectively and efficiently, key insight and consideration needs to be taken into account to leverage the “fun” and “winning to engage more consumers (marketing and prize design), ensure product features are attractive to consumers (prize design and interest), and create a framework that is legally sound and efficient for users (legal and technology infrastructure).

Marketing

The importance of marketing to increase the sustainability and reach of a PLS product by generating excitement and continued engagement cannot be overstated. PLS products are attractive because they engage consumers in savings by making it more fun and rewarding, and it’s crucial for this excitement to be conveyed in the marketing. Through surveys, interviews with those who launch new PLS products, and D2D’s experience, it is clear that widespread marketing that both explains and engages customers with a product is invaluable to its future success.²⁷

Legal

The use of prizes to incent behavioral change is governed by an array of laws, both at the state and federal levels. “Games of chance” are regulated primarily at the state level, although there are critical federal statutes that provide guidance to financial institutions and multi-state product offerings. Additionally, the product sponsor may have regulatory considerations at the state and federal level. The most simple implementation of a PLS product may be using sweepstakes regulations, which both federal and state law allow for, as a common platform. Ultimately, the implementation of a PLS product depends on the sponsoring entity, the geographic reach and area, and the structure of the product.²⁸

²⁷ For more information about the importance of marketing please see, “A Win-Win For All: The Growth of Save to Win in Michigan” D2D Fund (2011) accessible at www.d2dfund.org.

²⁸ For more information about financial institution implementation please see “Save to Win: Final Project Results” D2D Fund (2010) accessible at www.d2dfund.org, pages 24-25.

PRODUCT INNOVATION: SaveUp

SaveUp is the nation's first rewards game for saving money and reducing debt. With the goals of helping Americans make it through the recession and rebuild assets, SaveUp also gives users an easy, fun way to discover financial services and increase financial knowledge.

SaveUp was designed by co-founders and socially responsible entrepreneurs Priya Haji, CEO and Sammy Shreibati, CTO and their team as a digital interpretation of Prize Linked Savings. The SaveUp team saw power in the behavioral economics of motivating people to save money through rewards, demonstrated in D2D Fund Chairman and Oxford Business School Dean Peter Tufano's research. The team wanted to find a way to make PLS available to any person – regardless of their financial institution; in addition, SaveUp wanted to explore rewards for other good financial actions like debt reduction and financial education. They also wanted to make SaveUp easily and cheaply scalable so that millions of people could benefit with few barriers.

To accomplish these goals the user comes directly to SaveUp.com or may be referred by their own bank or credit union – and registers a SaveUp account with his or her email or Facebook. Once signed into SaveUp, the user can register any account where he or she is saving money (savings, 401k, IRA, etc.) or and paying down debt (car loan, student loan, credit card, mortgage, etc.). For every dollar saved, the user earns 1 SaveUp credit. With just 10 credits, the user can play for brand sponsored prizes – ranging from gift cards, cars, vacations and even a \$2M jackpot. While playing SaveUp, users also receive prompts to engage in financial challenges to improve behavior, watch videos to learn financial skills, and earn more credits for engaging with their personal finances.

The business model of SaveUp is supported by advertising from major brands for the prizes, as well as partnerships with financial institutions and banks. SaveUp does not make financial suggestions and follows the principle that any product or service introduced must be better than the one you already have. Some banks and credit unions are now partnering with SaveUp to provide the rewards program to their customers with specialized content including financial products.

The average SaveUp user is on the site more than once a week. SaveUp provides the user daily positive motivation with education, challenges, and suggestions. 64% of SaveUp members say their favorite aspect of the experience is being rewarded for their good financial actions. In an independent study of users, 52% say the site has made them more aware of their personal finances and 45% has helped them save more or reduce more debt or both.



Interest

Consumers' sensitivity to the interest rate on a PLS product will likely vary by distribution channel. In channels that traditionally offer interest on deposits, like financial institutions, demand for the product increases if interest is offered.²⁹ However, in other channels where consumers traditionally have not earned interest, like lottery or prepaid cards, respondents seem much more focused on prize and product design.³⁰ Both the channel of distribution as well as how the product is marketed and communicated to consumers will impact their sensitivity to whether the product earns interest and the amount of interest earned.

Prize-Design

The creation of a prize-design that generates excitement must be balanced with three competing needs: sustainable prize pools, many small winners, and a large headline prize. Balancing the opportunity for everyone to feel like they have won or have the chance to win with a game-changing prize is an important consideration.³¹

Technology Infrastructure

Two prongs of technology infrastructure should be considered- a consumer facing frontend and a data aggregating backend. Allowing consumers to access up-to-date information about their chances to win prizes, account balances, and recent activity can enhance consumer engagement. This infrastructure has been overlooked in some PLS applications but could compliment, or become a core component of, marketing efforts.

The backend system of a PLS product collects data about the financial activity of users of the product and allows for auditing of the data, secure storage, and winner selection. This process can range from relatively simple, as in the case of a single institution that collects data in-house, to very complex, when multiple financial institutions using different operating systems feed data into one central data hub. The proper functioning of this system allows for greater

ease of use among PLS providers, faster auditing of data by program administrators, and provides legal security for those who run the product.

Evaluation of PLS in Different Channels

Adding a PLS layer to existing products or services can create a win-win for consumers and providers, where enhanced consumer engagement increases savings and PLS-enhanced products or services experience greater take-up and stickiness. Although D2D feels that each of the applications described below are worth pursuing, each excels in different areas. To understand the potential impact and sustainability of a PLS product, we consider the effectiveness and efficiency of each product:

1 Effectiveness: What is the potential for consumer impact?

- How will the product strengthen the financial security of consumers?
- Will the product be accessible to financially vulnerable consumers?
- Does the product have the potential to engage consumers over time to achieve long-term financial security and behavior change?

2 Efficiency: Is this a sustainable product for providers?

- What is the total reach of the product? How many consumers have access?
- What is the potential to scale? Are there significant barriers to scale?
- What are the financial drivers of success (increase in profit, higher customer retention, enhanced take-up, etc.)?

²⁹ Boyd, Heidi and Maynard, Nick. "Prize-Linked Savings and Financially Vulnerable Americans: Insights from a Five-State Study," *Doorways to Dreams Fund* (September 2011). Available at www.d2dfund.org.

³⁰ These insights are from two surveys D2D conducted surrounding savings pockets on prepaid cards with Plastyc and a survey on a savings lottery.

³¹ "A Win-Win For All: The Growth of Save to Win in Michigan" *D2D Fund* (2011) accessible at www.d2dfund.org.

One Large Financial Institution

Within the United States, the most successful PLS product has been pursued by groups of financial institutions offering the product cooperatively. This has allowed smaller institutions to share the cost of prizes and technology, as well as reach and impact more consumers. However, a large financial institution, especially one with significant regional or national reach, could implement a PLS product at a larger scale, reaching hundreds of thousands of potential savers without the integration challenges of a cooperative model.

The design of the product could easily mirror the current Save to Win product, with customers opening a designated PLS savings account and earning entries for deposit activities. Interest would likely need to be awarded at moderate levels and may impact take-up rates for the product, but effective prize-design and promotion could outweigh this. To increase engagement, consumers could have access to a web-based portal to map their progress in the product. This would be easier to offer to consumers at a single institution as an add-on page to a bank's existing online banking platform.

Is the product effective?

As discussed in a prior chapter in this paper, PLS products offered through financial institutions have had tremendous success engaging a diverse set of consumers. Although un- and under-banked consumers face some barriers to banking at a large financial institution, financially vulnerable consumers who do have access to a financial institution but no savings there, have been able to use a PLS product to grow and maintain savings.³² Additionally, the product has been successful in engaging accountholders over long periods of time. Across all accountholders, the Save to Win Michigan product had nearly two-thirds of accounts rolling over from 2010 to 2011.³³ Although this implementation of the product may not reach the most vulnerable consumers, it has a real possibility to engage a large segment of LMI consumers over time.

³² For analysis of financially vulnerable consumers in the STW program, please see all yearly reports about the program available at www.d2dfund.org.

³³ 64% of 2010 STW participants opened an account in 2011.

Is the product efficient?

Large financial institutions in America have significant reach, with 0.65% of banks controlling 65% of all deposits.³⁴ According to Bank of America their "retail banking footprint covers approximately 80 percent of the U.S. population and [they serve] ... approximately 57 million [domestic] consumer and small business relationships with 5,700 banking centers, 17,750 ATMs."³⁵ This breadth of reach highlights the potential of PLS products offered at these institutions to touch millions of consumers and scale fairly easily across the country.

While the interest, penetration rate, product design, and prize design will determine the sustainability of the product, PLS products have a variety of benefits that need to be weighed against their costs. PLS products can increase customer acquisition and retention through a 'stickier' consumer base and increase publicity and goodwill in the broader community.

³⁴ "Analysis of Branded General Purpose Reloadable Prepaid Cards: A Comparative Cost Analysis of Prepaid Cards, Basic Checking Accounts and Check Cashing" Bretton Woods (February 2012) pg. 3 available at www.nbpca.org.

³⁵ Bank of America (2011). 10-K Annual Report 2011. Pg. 20. Retrieved September 26, 2012 from www.bankofamerica.com.

Debt Repayment

Borrowing to finance major life events and every day expenses is ubiquitous. Education, car, and home loans are held by almost all Americans. Many consumers take on these debt obligations and work to steadily repay them overtime. However, unexpected financial shocks and emergencies can cause shortfalls in cash that jeopardize repayment. This can cause defaults, increased interest rates, and a suite of problems for consumers. Consumers who have no savings to handle financial shocks are at increased risk for delinquency and defaults.

However, absent of financial distress, most consumers make monthly repayments on their debt obligations and are accustomed to interacting with their debt servicing organization consistently. In these moments of financial security, consumers could add a small amount to their monthly payment—as small as five dollars—and debt holders could put this into a rainy day savings pocket that had a PLS mechanism on it. This reserve has the potential of helping consumers strengthen their ability to effectively cope with financial shocks and minimize their chances of loan delinquency or default. The savings pocket could offer prizes such as winning a monthly loan payment, a full loan payoff, or a reduction in interest rate.

Loan companies would have to work with financial institutions to create accessible savings accounts to offer this product. A white-label bank could power an account that the loan companies run. Alternatively, a financial institution could facilitate the opening of a savings account for their loan holders for the savings pocket.

Is the product effective?

Debt repayment is something that almost all consumers face; however, the increasing default rates indicate a growing need for assistance meeting debt obligations. Young adults and financially vulnerable consumers could benefit from the opportunity to build a rainy day savings fund during loan repayment.³⁶

³⁶ "Student Loan Default Rates Increase." U.S. Department of Education, 13 Sept. 2010. Web. 28 Sept. 2012. www.ed.gov/news/press-releases/student-loan-default-rates-increase-0.

A PLS product that provides both a mechanism and a motivation for consumers to handle high debt loads could be very effective. A regular opportunity to save that results in a financial cushion could provide lasting financial security for consumers as it helps shield them from shocks and removes the stress and negative consequences of potential loan default.

Is the product efficient?

The potential impact could be enormous considering the size of the different loan industries - student debt estimates range from \$867 billion to over one trillion in 2012, credit card debt topped \$704 billion in 2011, and auto loans surpassed \$734 billion in 2011.³⁷

The possible reduction in default rates could allow institutions to reduce their risk on each loan and, by extension, their portfolio. A PLS product also has the potential to improve public perception of loan providers, as they would be providing borrowers a tool to help them better manage their repayments to them. Finally, the product design may be economically sustainable as consumers may not expect to receive interest in this channel. The overall cost of the program is unlikely to approach the financial and reputational benefits a loan-originator would receive.

³⁷ Wilson, Siemond Chan and Chris. "By the Numbers: Student Loans and the Interest Rate Debate (info graphic)." Yahoo! News. Yahoo!, 09 May 2012. Web. 10 Sept. 2012. <http://news.yahoo.com/blogs/ticket/numbers-student-loans-interest-rate-debate-infographic-211152141.html>. Please note the rates cited are from the New York Federal Reserve.

Prepaid Cards

A small but growing number of prepaid cards are starting to offer saving functions, where consumers can transfer money to a separate portion of their card or a separate account that is not accessible for card transactions.³⁸ While the savings feature allows for customers to set funds aside similar to a savings account, its availability on a prepaid card allows it to be designed differently than more traditional savings accounts. Given the access to savings on prepaid cards and the likely expansion of this feature, a prize-linked layer could easily be implemented to drive more consumers to use and engage with it.

Is the product effective?

Prepaid cards are an important way to reach un- and under-banked populations who are excluded or have removed themselves from traditional financial institutions.³⁹ Through D2D's collaboration with Plastyc, Inc. to design a savings pocket on their prepaid card, over 5,500 consumers to date have taken up the savings pocket and deposited \$5.5 million. Of savers surveyed, 56% reported having no checking or savings account at a traditional financial institution. Twenty-two percent of savers also indicated that one reason they began using the savings pocket was the opportunity to earn rewards for savings.⁴⁰ The take-up of the savings feature as well as the interest expressed in rewards shows the potential for prize-linked savings to help drive both take up and engagement in card savings features.

Prepaid card users are also disproportionately young, with 43% belonging to Gen-Y.⁴¹ There is an opportunity for prepaid cards, with the right features, to help young consumers establish healthy financial habits.

Is the product efficient?

Prepaid cards are growing in popularity, with usage increasing by 18% from 2010 to 2011 and penetration reaching 13% of adult U.S. consumers.⁴² The compound annual rate of growth far outstrips any other segment of payments.⁴³ As prepaid cards continue to grow in market share, this will remain an important channel to help consumers build savings.

One downside of prepaid cards today is the fact that there is relatively more turnover when compared to other types of financial instruments.⁴⁴ However, as prepaid cards continue to reach more consumers and a variety of demographics, the duration of their use may grow. Moreover, card features, such as savings, have the potential to attract and engage consumers more long-term, extending longevity of use and improving stickiness. Consumers relying on their prepaid cards as a tool for budgeting and managing their day to day finances need features that can address more of their financial needs.

³⁸ Some also offer savings accounts with variable interest rates, these include NetSpend, Union Plus and Vision Prepaid, Plastyc, see New, Catherine. "Prepaid Cards Offer Highest Interest Rates For Savings Accounts, With Lots Of Catches." The Huffington Post., 05 June 2012 at www.huffingtonpost.com/2012/06/05/prepaid-cards-savings-rates_n_1569342.html for more information.

³⁹ The top two reasons for prepaid card use are the inability to qualify for a banking account or the unwillingness to pay high fees associated with one. Please see Ody, Elizabeth. "Prepaid Card Use Up 18% as Consumers Drop Debit: Study." Bloomberg., 11 Apr. 2012. Web. 10 Sept. 2012. <http://www.bloomberg.com/news/2012-04-11/prepaid-card-use-up-18-as-consumers-drop-debit-study.html> for more information.

⁴⁰ D2D collaborated with Plastyc Inc. to design a savings pocket, called the "Rainy Day Reserve" on the UPSide prepaid card, which launched in November 2011. A report of findings for this work is forthcoming.

⁴¹ "Analysis of Branded General Purpose Reloadable Prepaid Cards: A Comparative Cost Analysis of Prepaid Cards, Basic Checking Accounts and Check Cashing" Bretton Woods (February 2012) pg. 4 available at www.nbpc.org.

⁴² Ody, Elizabeth. "Prepaid Card Use Up 18% as Consumers Drop Debit: Study." Bloomberg., 11 Apr. 2012. Web. 10 Sept. 2012. www.bloomberg.com/news/2012-04-11/prepaid-card-use-up-18-as-consumers-drop-debit-study.html.

⁴³ "Analysis of reloadable Prepaid Cards in an Environment of Rising Consumer Banking Fees: Comparative Cost Analysis of Prepaid Cards, Basic Checking Accounts and Check Cashing" Bretton Woods (March 201a) pg. 9 Available at www.brettonwoods.com.

⁴⁴ "As of 2008, 14.0 percent of consumers had discarded a credit card and 27.5 percent had discarded a prepaid card, compared with 4.9 percent of consumers who had discarded checks and 5.9 percent who had discarded debit cards" For more information about patterns of use with prepaid cards see Foster, Kevin, et. al. "The 2008 Survey of Consumer Payment Choice." Boston Federal Reserve Bank (2009), Pg. 15 available at www.bos.frb.org.

PRODUCT INNOVATION: PayPerks

PayPerks is a financial education platform that employs a “prize-linked savings” approach to drive changes to financial behaviors that are both (1) positive for low-and middle-income users and (2) profitable for financial service providers.

PayPerks can be thought of as a loyalty layer that sits on top of financial products and services targeting the un- and underbanked. In the prepaid card space, for example, people with PayPerks-enabled cards can earn PayPerks points for saving money by using their card to lower check cashing and money order fees or by accumulating a rainy day fund on a prepaid card. Points can also be earned for engaging with PayPerks financial education tools and curriculum. Each point earned is automatically converted into the chance to win one of many monthly cash prizes.

In a 2011 pilot with MasterCard, PayPerks illustrated that rewarding users for using its financial education tools and curriculum, in addition to rewarding users for saving fees, dramatically impacted Payroll Card adoption and usage of the card at point of sale (“POS”). The test, which was conducted across 150 employer pay sites in the US, measured voluntary opt-in and POS usage on Payroll Cards pre and post the addition of PayPerks. Within just a few weeks, new behaviors were taking shape including increases in:

Voluntary adoption: *The number of employees requesting Payroll Cards increased 100% versus prior periods.*

POS usage: *Versus prior periods when the average Payroll Card holder only used their card at POS 0.8 times per week, PayPerks users, who were extensively educated on how and why to use their card at POS, swiped on average 3.8 times per week.*

Engagement with financial education: *PayPerks users spent an average of 12 minutes on-site each visit taking PayPerks’ illustrated educational curriculum learning about topics such as the advantages of direct deposit over paper checks and how to make signature transactions at point of sale.*

The behavior changes were so dramatic that MasterCard spotted an opportunity to provide financial literacy education to several million un- and under-banked Americans by offering PayPerks as an optional feature on its government-sponsored prepaid debit cards used for social security, unemployment insurance, child support and other benefits disbursements.



PayPerks Scratcher Ticket

Government

The success of the UK Premium Bond program provides strong evidence in the potential of government PLS products. The UK bonds program has had enormous success, reaching approximately 35% of the population who hold more than £40 billion in premium bonds.⁴⁵ These bonds do not pay interest, instead using interest off of the pooled deposits to pay out prizes. Premium bonds also have a relatively high entry point of £100 pounds creating larger barriers to entry than other products discussed so far.

D2D strongly believes in the potential of a government-distributed PLS product. The reach of a government product could ensure sustainability due to the large potential market size. Additionally, the credibility of a government offered channel could draw more consumers into the product. In chapter two we discussed in detail how a state-wide lottery product would function. In addition to a lottery model, the U.S. could create a U.S. Savings Bond-based PLS product, similar to the U.K. Premium Bond program. In addition to the benefits described above, savings bonds permit nearly universal access, where consumers do not need an account or relationship with a specific financial institution or service provider.

Is the product effective?

Already available at scale, U.S. Savings Bonds are held by a diverse set of consumers. In 2012 through the tax-time savings bond option, where tax filers can deposit a portion of their refund into savings bonds, over 38,000 people, nearly 70% with household income less than \$50,000, saved \$20.4MM in bonds. Over 25% of those who bought bonds in 2011 did so again in 2012.⁴⁶ Although these numbers look at one distribution channel of savings bonds through tax-time promotions and cannot be applied to larger bonds sales, it proves that low to moderate income individuals can and will purchase savings bonds. Additionally, they will sustain their behavior year over year. For more information on the PLS tax-time savings bonds pilots, please see our sidebar on PLS at tax time.

⁴⁵ See "New Millionaire from Tayside in April's Jackpot Draw" *National Savings & Investments* (2010). Accessed September 10, 2012 at: <http://www.nsandi.com/press-room/press-releases/pr200997>.

⁴⁶ "2012 Savings Bond Report" (2012) D2D Fund. Pg. 3. Available at www.d2dfund.org.

Is the product efficient?

The total market size for bonds is large, with 55 million consumers⁴⁷ holding U.S. Savings Bonds. With the success of UK's premium bond program, there is an opportunity to recreate it successfully in the U.S. With an interest-free savings bonds model, the government would have a significant amount of pooled interest to generate a meaningful prize pool to engage consumers. The reach and accessibility of U.S. Savings Bonds means this PLS channel is both scalable and sustainable. Savings bonds also have the brand recognition and credibility to more easily drive take-up. Plus, for the government, increasing consumers' purchase of U.S. Savings Bonds offers them a potentially cheaper cost to capital, which would be beneficial to the country.

Personal Financial Management Tools

A wide variety of Personal Financial Management (PFM) tools (such as the Mint, HelloWallet, etc.) have been developed to help consumers manage accounts at multiple financial institutions. These sites aggregate the financial data consumers choose to add in (users can add as many or few account as they choose). These tools are often used to monitor and track behavior so users can understand their own budgets and spending habits, as well as plan for the future. While account linkage is not required, it does make the tools more effective by linking the achievement of goals to actual behaviors.

There are two ways D2D envisions PFMs integrating a PLS layer to a PFM tool. First, a PFM could offer its own dedicated account to users by partnering with a bank. This would require new technology capabilities but would allow for close tracking. Second, a PFM could add a PLS-layer to linked accounts so that as users save more (or reduce debt) in the linked accounts, they received entries to the PFM prize pool. To try and encourage long-term savings, the PLS layer could have rules that favor certain types of accounts (CDs, versus savings accounts), certain types of saving goals (retirement, emergency) and provide incentives to keep money in the accounts for longer periods of time.

⁴⁷ "2012 Savings Bond Report" (2012) D2D Fund. Pg. 5. Available at www.d2dfund.org.

Moving Forward

Is the product effective?

PFMs have several advantages over other financial services. They are viewed as more trustworthy by many consumers who feel negatively about traditional financial institutions,⁴⁸ they are financial institution agnostic so barriers to access are low, although internet access is required, and they allow consumers to see a more holistic portrayal of their finances.

However, current barriers to functionality and relatively low uptake may be preventing PFMs from reaching full utility. It is also hard to evaluate the effectiveness of PFM's today because user information – including demographics and engagement – is not currently available.

Is the product efficient?

Few PFMs report their total usage numbers but in the future they could reach many consumers. The cost structure of a PLS layer in a PFM tool would likely be tied to prizes and rewards given, which could be subsidized by corporate partnerships, making this a very scalable model.

In the future, the number of all consumers with mobile phones and internet access will be very high. Currently, 91% of under-banked consumers have a mobile phone and 57% using a smartphone (compared to 87% and 44% of the total population).⁴⁹ Mobile banking services are used by under-banked consumers more than traditional consumers (29% compared to 21%).⁵⁰ Smartphone usage could help provide access to the PFMs for many LMI consumers who otherwise have limited internet access. Innovations in financial products, including prepaid cards, can expand access to those without bank accounts.

PLS products can be offered through a variety of markets and channels. In many instances a PLS layer can be added onto a traditional product with little difficulty. Traditional providers of savings products with well setup infrastructures could easily serve many consumers with PLS-based products in a very cost-effective manner. However, innovations by financial service providers that are gaining market share, such as prepaid cards and PFMs, could provide a gateway to new customer bases and distribution channels and remove barriers, such as relationship with a specific financial institution.

The use of prizes to encourage savings behavior has been proven through Save to Win and international PLS applications. Given these successes, the PLS concept is being applied in new channels, expanding its reach and accessibility to consumers. Savings is a critical foundation that can lead to other healthy financial behaviors, and we should continue to explore opportunities to use PLS to engage consumers in savings. However, applying the same core features of PLS (rewards, fun, engagement) to other financial behaviors, from debt reduction to increased knowledge about retirement options, could also positively influence consumers and improve overall financial wellbeing.⁵¹

1.1 Summary Table

| Channel | Business Sustainability | Total Reach | LMI Reach |
|--------------------|-------------------------|-----------------|------------|
| Single Institution | High | High | Medium |
| Debt Repayment | High | High | High |
| Prepaid Cards | High | Low but Growing | High |
| U.S. Savings Bonds | High | High | High |
| PFM Tool | High | Low but Growing | Low/Medium |

⁴⁸ Sturgill, Nicole. "Technology Spotlight: Personal Financial Management—Bringing Trust Back." Tower Group Edge, (March 2012). Available at <http://towergroupedge.exdblogs.com>.

⁴⁹ Dole, Kate Marshall "Fed Finds Underbanked Consumers to be Heavy Users of Mobile Financial Services." CFSI. (2012). Available at <http://cfsinnovation.com>.

⁵⁰ Dole, Kate Marshall "Fed Finds Underbanked Consumers to be Heavy Users of Mobile Financial Services." CFSI. (2012). Available at <http://cfsinnovation.com>.

⁵¹ Please see our forthcoming paper on "Gamification" of personal finance available on www.d2dfund.org soon.

The Effectiveness of Prize-Linked Savings

While we know incentives can be huge motivators to engage consumers in new behaviors, such as savings, incentives can also be costly for a financial institution or service provider to offer. But, do incentives for savings need to be costly to be effective? In our work with Save to Win, we have seen the potential of a little prize money going a long way in motivating consumers to save.

With the right prize design and incentive structure, a little money can go a long way in engaging consumers to try and save in a product. With resources limited, the prize design needs to balance motivating behavior with affordability and sustainability. With Save to Win, we learn it is not the size of the overall prizes that matter but the way the incentives are structured and designed to engage.

In Save to Win's pilot year in Michigan, more than 11,600 consumers saved \$8.6 million. In that year, \$139,000 in prize money was awarded in monthly or grand prize credit union league drawings. The cost of incentives per dollar saved was less than \$0.02, meaning for every \$1 in prizes, \$61.58 was saved. In Nebraska, where the program is currently in its pilot year more than 1,300 consumers have saved over \$1.1 million as of July 31, 2012. The total prizes awarded to date are \$29,000. Seven months into the program, every \$1 in prize money has equated to \$38.61 in savings; for every \$1 dollar saved less than \$0.03 in prize money was awarded.

| | Michigan Pilot Year (2009) | Nebraska Pilot Year (2012, through 7/31) |
|----------------------------|----------------------------|--|
| # of Accounts | 11,666 | 1,311 |
| Total Saved | \$8.6MM | \$1.1MM |
| Total Prizes | \$139K | \$29K ⁵³ |
| Cost per \$1 saved | \$0.016 | \$0.026 |
| \$ Saved per \$1 Incentive | \$61.58 | \$38.61 |

⁵³ Includes individual credit union and credit union league monthly prizes awarded to date and a pro-rated value of the grand prize drawing.

CONCLUSION

While the savings rate is continuing to climb in the U.S., there still remain significant barriers to building sufficient savings. From depressingly low interest rates to reduced income, the financial security problem is hardly resolved. PLS concepts can be a game-changer in this dynamic. As discussed in the paper, PLS has demonstrated that it can change the experience and engagement between consumers and their financial products, positively impacting the savings results.

In our 2011 PLS report, we asserted that the secret of PLS was the “fun.” Well, the other secret is its potential to be integrated into a variety of systems, finding consumers at different points in their financial lifecycle. PLS-layered products could help them pay off a student loan without default and with a savings reserve at the end; they can motivate use of a personal financial management tool, helping them budget and save towards a goal; and they can be found at the local convenience store in the form of a lottery ticket so consumers can save as impulsively as buying a pack of gum. Because the PLS concept can be attached to existing products and distribution channels, there is virtually unlimited opportunity to apply it and foster innovation that helps more people save or reduce debt.

Achieving measurable financial security in the U.S. requires both changing the landscape of financial products and policies and developing tools that can change consumer behavior. These changes demand innovation and, frankly, some wild ideas that can shake up how people interact with their finances. Additionally, to achieve impact, the products and tools must be scaled. We believe the “PLS bundle” - savings, entertainment, and a moment to dream - in the various models explored, is one of these products, policies, and potential tools that will meaningfully change people's lives. When we started this work in 2008, PLS may have seemed more like one of the “wild ideas.” Now, it is a proven concept that, if mined thoughtfully, can lead to a more engaging and exciting financial services world.



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