
The Savings Sweepstakes

By Kerry Pechter *Wed, May 5, 2010*

Lottery-like savings programs aren't widely legal in the U.S., but a Harvard Business School professor believes they could inspire more low and middle-income Americans to save.

Eighty-six-year-old Billie June Smith of tiny Lake, Michigan, was beaming last February 4 as she stepped forward to accept a check for \$100,000 from Steve Winninger, CEO of the NuUnion Credit Union.

At the ceremony in Lansing, the state capital, she held a cardboard mock-up of her sweepstakes check. Measuring about 4' by 2', the check was nearly as wide as she was tall.

Luck and thrift had brought Ms. Smith to Lansing. She was one of more than 11,600 Michiganders who deposited over \$8.6 million in accounts at one of eight credit unions around the state in 2009. Each depositor was eligible for small monthly cash drawings and an annual grand prize of \$100,000.

And her ticket number was drawn for the big one.

A lottery? At a credit union? Bingo! No, this wasn't some maverick banker's update on 1950s toaster giveaways. It's part of a grassroots campaign based on the research of Peter Tufano of the Harvard Business School and a Boston-based nonprofit he chairs, the [Doorways to Dreams Fund](#) (D2D).

Life-altering prizes

As millions of Americans reel toward retirement without adequate savings, policymakers and 401(k) plan providers have conjured up lots of different strategies to encourage low- and middle-income people to start saving more.

This effort has produced carrot or stick solutions like auto-enrollment in retirement plans, the proposed Saver's Credit, tax breaks on saving for health care, college tuition, retirement and long-term care, and research into framing and choice architecture. Yet many Americans still lack the means, motive or opportunity to save adequately.

But they do buy lottery tickets, to the tune of about \$60 billion a year in 42 states. So Tufano urges policymakers to channel that compulsion into thrift by linking savings accounts to irresistible, "life-altering" cash prizes.

Instead of buying chances to win, people get tickets for savings. The more money they sock away, the more tickets they get. The yields on savings are small, just like the chances of winning the grand prize. But to many people, the size of the prizes, psychologically, seems to make up for it in both cases. In prize-linked savings programs, participants at least get return of principal.

"Fifty percent of Americans say they can't lay their hands on \$2,000 in 30 days—not from savings, from a

bank loan, or from friends or family,” said Tufano, who presented a paper on prize-linked savings programs at the Pension Research Council’s conference on financial literacy, held last week at the University of Pennsylvania’s Wharton School of Business.

“But in 2008, Americans spent an average of more than \$540 per household nationwide on state lotteries,” said Tufano, who co-authored the paper, “Making Savers Winners,” with Erick Hurst, Melissa S. Kearney and Jonathan Guryan. “In Massachusetts, people spent an average of \$725 per person on lotteries. In the same year, American households spent \$430 on all dairy products and \$444 on alcohol. We buy more lottery tickets than milk or beer.”

“You have to go where the people are,” he said, rather than try to persuade them to come to where you are.

Unfortunately, prize-linked savings programs are illegal in the United States—except in credit unions. That’s where Doorways to Dreams has directed much of its effort, by organizing pilot prize-linked savings programs at credit unions in Michigan and elsewhere.

It’s not too surprising that prize-linked savings programs are illegal, and not just because they’d break the monopoly on lotteries that state governments currently enjoy. Even if the programs help the masses save, does it make sense to enrich a tiny fraction of them with jackpots while depriving the rest of decent compound interest? And they can hardly be said to make people more financially literate.

But that may not matter. One of America’s leading experts on financial literacy, Dartmouth’s Annamaria Lusardi, is a fan of Tufano’s work.

“What Peter is doing is combining what people like to do into a financial instrument,” said Lusardi, who co-organized last week’s conference with Pension Research Council director Olivia Mitchell. “If low-income people think their only way to become rich is to play the lottery, why don’t we offer an instrument that allows them to save *and* to play the lottery? I do not find anything paternalistic about it. Quite the opposite. The return may be low, but the objective is to make people save.”

Mentioned by Jethro Tull

Prize-linked savings programs do seem to have a productive track record. As Tufano’s research shows, these schemes have been used in various parts of the world since the 17th century. In Britain, a government agency called the National Savings & Investments has been marketing Premium Savings Bonds for over 50 years.

First sold in England in 1956 to encourage savings after World War II, Premium Bonds are now owned by 26 million Britons with £26 billion (\$39.4 billion) invested. Each month’s prize fund—the top prize is £1 million (\$1.5 million)—equals a month’s interest (currently 1.5%) on the principal. The minimum single purchase is £100, which buys 100 chances to win. The maximum account balance is £30,000.

(Tufano’s research shows that the premium bond has even appeared in the lyrics to a classic rock song. A

line from *Thick as a Brick*, the title track of the 1972 Jethro Tull album, reads: "... how's your granny and good old Ernie: he coughed up a tenner on a premium bond win.")

The first recorded prize-linked savings program was the "Million Adventure" in the UK in 1694. Intended to help pay off debt from the Nine Years' War (1689-97), the British government sold 100,000 tickets at £10 each. Lower-income people brought fractions of tickets through syndicates. As a savings program, it paid out £1 per year, and each year 2,500 of the tickets would win prizes of up to £1,000.

Premium bonds became popular all over Europe at the end of the 19th century. Today, they're offered in 20 countries from Brazil to Germany to Sri Lanka. Prizes include gold bars, DVDs, apartments, cars and motorcycles, encyclopedias and, of course, large and small cash prizes. In early 2009, JP Morgan Chase ran a no-purchase-necessary, "Double Your Deposit" sweepstakes that paid up to \$10,000 to savers.

The unlikelihood that prize-linked savings will ever become a huge phenomenon in the U.S. has apparently not stopped Tufano and the Doorways to Dreams Fund from continuing to pursue programs at credit unions or from pursuing fundamental research into the psychology of non-saving.

D2D has partnered with [Olson Zaltman Associates](#), a Pittsburgh-based consulting firm that uses the ZMET, or Zaltman Metaphor Elicitation Technique. It requires individuals who are not highly verbal to describe their feelings or attitudes with a collage of digitized visual images.

In the process, they claim to be "probing the minds of lower income consumers in order to bring innovation to the marketing of savings." D2D says it "hopes to dramatically strengthen the storehouse of consumer data and insight from which financial service vendors, policymakers and non-profit providers may draw."

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