



# OLR RESEARCH REPORT

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## PRIZE LINKED SAVINGS

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You asked for information about prize linked savings (PLS) accounts. Specifically, you asked about any state or federal laws that would prevent Connecticut banks and credit unions from offering PLS accounts.

### SUMMARY

PLS account holders generally receive entries into a drawing to win a cash prize when they deposit a certain amount of money into a savings account or other savings program. Some promotions cap the maximum number of entries a participant may receive each month in order to prevent wealthier participants from gaining an unfair advantage. According to the National Bureau of Economic Research, a PLS account “adds a lottery-like feature to an otherwise standard saving account, creating an asset structure that might hold great appeal to the target low-saver segment of the population” (<http://papers.nber.org/papers/w16433>).

Federal law explicitly prohibits banks from running lotteries. Connecticut prohibits any lotteries other than those that are state-operated, but that law could be amended to allow state-chartered credit unions to run lotteries. (The state has very limited regulatory authority over federally chartered credit unions, and any legislation creating a PLS program for credit unions and requiring regulatory oversight would likely have to be limited to those credit unions that are state-chartered.)

Federal law appears to prohibit banks from running raffles, since the definition of lottery in the federal statute seems to encompass raffles as well. Connecticut law also prohibits banks and credit unions from running raffles, but it could be amended to allow credit unions to do so. A 2011 bill, SB 358, proposed allowing Connecticut credit unions to conduct “savings promotions raffles.”

Neither federal nor state law prohibits credit unions and banks from running sweepstakes. State law, however, would require an alternative means of entering the sweepstakes that would not necessitate opening a savings account.

## **LOTTERIES**

### ***Federal Law***

Federal law defines a lottery as any arrangement in which three or more people advance money or credit to another in exchange for the possibility that at least one but not all of the participants will receive more money than the amounts they advanced. The winners may be determined by any means, including:

1. random selection;
2. a game, race, or contest; or
3. the results of one or more events in which any participant has no interest except for its bearing upon the possibility that he or she may become a winner ([12 USC § 339\(c\)\(2\)](#)).

Federal law prohibits both state banks and national banks from:

1. dealing in lottery tickets;
2. dealing in bets used as a means of substitute for lottery participation;
3. announcing, advertising, or publicizing the existence of a lottery; and
4. announcing, advertising, or publicizing the identity of a lottery participant or winner (12 USC §§ [339\(a\)](#), [25a](#), [1829a](#)).

Federal law allows non-profit organizations and governmental organizations to run lotteries provided they are not prohibited by the respective state's laws. Federal law does not specifically prohibit credit unions from running lotteries.

### ***State Law***

Connecticut currently prohibits any lotteries other than those that are state-operated (CGS § [53-278a](#)). The law could be amended to allow credit unions, but not banks, to run lotteries.

## **RAFFLES**

### ***Federal Law***

Federal law does not explicitly prohibit banks from running lotteries. However, it appears that the federal prohibition on bank-run lotteries may also extend to bank-run raffles if the raffles require entrants to advance money or credit in order to participate. Federal law does not appear to prohibit credit unions from running raffles.

### ***State Law***

Connecticut law allows the following to conduct, operate, or sponsor raffles if the town where they are located has adopted the Bazaar and Raffles Act: veterans', religious, civic, fraternal, educational, and charitable organizations; volunteer fire companies; political parties and their town committees; and towns acting through a designated centennial, bicentennial, or other centennial celebration committee (CGS § [7-172](#)). Neither banks nor credit unions are included among the organizations that may sponsor raffles.

For those eligible to sponsor raffles, cash prizes cannot exceed \$50. Other prizes are limited to merchandise; tangible personal property; nontransferrable or nonrefundable tickets, coupons, or gift certificates entitling winners to merchandise; services; and transportation on common carriers to tour facilities (CGS § [7-177](#)).

As with lotteries, state law could be changed to allow credit unions to conduct raffles but federal law appears to prohibit doing the same for banks (see above).

## ***Savings Promotion Raffles***

In the 2011 legislative session, SB 358 (An Act Encouraging Increased Savings Deposits) would have allowed state-chartered credit unions to conduct “savings promotion raffles,” defined as raffles for which the only consideration required to win a prize is the deposit of a minimum specified amount of money in a savings account or other savings program offered by a Connecticut credit union. The bill would have given the banking commissioner the discretion to adopt regulations pertaining to the raffles.

## **SWEEPSTAKES**

### ***Federal Law***

Federal law does not prohibit banks or credit unions from running sweepstakes.

### ***State Law***

Under state law, a sweepstakes is a legal contest or game (1) where a prize is distributed by lot or by chance and (2) that does not require a permit or license to operate in the state (CGS § [42-295](#)). A Connecticut bank or credit union could run a PLS promotion as a sweepstakes but to advertise it the law requires a free alternative means of entering the contest other than opening a savings account (CGS § [42-296](#)).

State law requires anyone advertising a sweepstakes in Connecticut to disclose in the advertisement, in the same size font as the prize description, the following:

1. the prize’s retail value;
2. if the element of chance is involved, the odds of winning the prize, or, if the odds depend upon the number of entries received, a statement to that effect; and
3. whether the prize receipt is restricted or qualified in any way, such as travel dates or times or classes of travel or airlines. (Advertisers may satisfy this requirement by stating “major restrictions may apply to the use, availability, or receipt of this prize” and including the specific rules or restrictions in a separate statement in the advertisement.)

The advertiser must also disclose clearly and conspicuously:

1. the promoter's name and address;
2. the sweepstakes' sponsor; and
3. any conditions or restrictions on the eligibility to receive the prize, such as age, residence, employment, or marital status (CGS § [42-297](#)).

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