



March 7, 2013

H.B. 5564– An Act Encouraging Increased Savings Deposits

Position: Favorable

Honorable Members of the Connecticut Joint Banks Committee:

The Doorways to Dreams Fund (D2D Fund) is a national non-profit that strengthens the financial opportunity and security of low- and moderate-income consumers by innovating, incubating and stimulating new financial products and policies. With over ten years of experience in this area, D2D Fund has worked with federal, state, and local governments, large financial institutions, national and local corporations, and a range of non-profit providers to achieve our goals.

Given the current recession, savings are more important to the financial security of American families than ever. Recent research from Dartmouth and Harvard suggests that half of Americans cannot come up with \$2,000 in thirty days and are not well prepared to deal with emergencies. This is particularly true for low- and moderate-income families who have fewer safe and affordable financial options to fall back on when they encounter a drop in income or a large unexpected expense.

- If households have savings, then they no longer are forced to use high-cost, predatory financial products (i.e. payday loans, title loans).
- If households have savings when a financial hiccup occurs, they can protect their family from financial hiccups that destroy stability.
- If households have savings, they are less likely to rely on state aid and other public assistance when they encounter financial stress.

Research and pilot tests conducted by D2D Fund and its colleagues has found that prize-linked savings accounts (PLS) are a safe and powerful incentive to get more families saving. In the United Kingdom over 20 million people hold a similar product, and in Michigan and Nebraska over 42,000 PLS accounts were opened over the past four years with over \$72 million saved in local credit unions.

The accounts engage new savers and small savers in *long-term saving behaviors*, resulting in increased financial security for households who prior to the account had little to no financial reserve.

- On average, well-more than half of accounts (64%) stay open from one year to the next with continued saving from account holders over multiple years.
- Between 40-50% of accountholders were non-savers prior to opening the account.
- 50% had no or little “rainy day” or emergency savings prior to opening the account.

- 30-50% of account holders are low-to-moderate income.
- Saving in a PLS account can lead to more engagement in the financial institution and more use of traditional financial products.

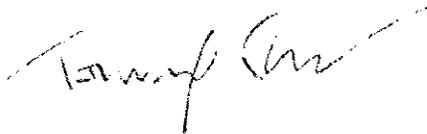
Prize-linked savings accounts are an internationally-tested, successful concept in which consumers earn chances to win by saving in insured and regulated financial institutions. The accounts:

- ✓ Make savings fun.
- ✓ Provide an incentive for people to save more.
- ✓ Help financially vulnerable families become more financially secure.
- ✓ Create a **no-lose proposition for savers**. Everyone who saves maintains their deposits, plus whatever interest they accrue, whether or not they win additional prizes.
- ✓ **Additionally, unlike most other policies for promoting savings, allowing prize-linked savings deposits would not require any public subsidies, tax credits or other public expenditures.**

D2D supports allowing Connecticut financial institutions the ability to offer these programs as they could ultimately help more families across the state start saving for their futures and produce a more secure and strong state overall. To date, Nebraska, Washington, North Carolina, Rhode Island, Maryland, and Maine have passed similar laws and have financial institutions offering, or working to offer, a prize-linked savings account. The laws have been structured similar to the proposed in Connecticut, allowing for flexibility in design for the financial institutions with appropriate oversight from regulators. This combination ensures that financial institutions can develop a sustainable product that fits their consumers' needs.

We encourage Connecticut legislators to pass H.B. 5564. D2D Fund is committed to work with Connecticut financial institutions to provide technical assistance and best practices from other states to launch a safe, secure, and impactful product.

Sincerely,



Tim Flacke
Executive Director, Doorways to Dreams Fund

Prize-linked Savings from Doorways to Dreams

An opportunity to *save* while having fun!



Why is Savings Important?

Savings has and will continue to play a critical role in:

- preparing people to weather financial shocks,
- helping them make important purchases and
- providing an alternative to costly credit.

At a time when jobs are disappearing and workers' hours are being cut, families' needs for reserve funds are, if anything, even more pronounced. The time is right for America to return to a saving culture, both to shore up households' finances and to strengthen the nation's economy as a whole.

What is Prize-linked Savings?

At a time when savings are important, how do we engage consumers in the act of saving and reinstitute a culture of thrift in America? One promising way is to ensure that the act of saving is fun. Prize-linked savings (PLS) models are structured to do exactly that – reward savings behavior to help motivate individuals to save. PLS is an internationally-tested, successful concept that consumers earn chances to win by saving in insured financial institutions or through government offered products.

PLS Products:

- ✓ Make savings fun!
- ✓ Provide incentive for people to save more.
- ✓ There are no losers.

Success in the United States:

Several states now have provisions in their state laws that allow credit unions to offer prize-linked savings accounts. Doorways to Dreams (D2D) Fund, has examined data from states offering a PLS program (Michigan and Nebraska) and identified several important findings:

- Over 42,000 people have opened and saved \$72 million in prize-linked savings accounts.
- Prize-linked savings successfully attracted **non-savers**, the **asset poor**, and **low-to-moderate income groups** to open accounts and also made a *positive impact on their savings behavior*
- Prize-linked savings has potential to motivate individuals to save consistently.
- Nebraska currently has 12 participating credit unions whose members have saved 1.97 million dollars
- Over 1 million credit union members have access to the product
- PLS products offer consumers a chance to make them better savers.

Different PLS Distribution Channels

There are many potential distribution channels for offering prize-linked savings. There is already an effort under way to expand PLS in credit unions in the U.S. Banks, lotteries, employers and the government (precedent exists in the UK with the government sponsored Premium bond program) all present additional and as-yet-unexplored channels for prize-linked savings in the United States.

Need for Expansion

The vision for the future is that Prize-linked Savings is ubiquitous, that all Americans have access to some type of prize-linked savings product. Our basic belief, that saving can be fun for all Americans, especially those of low and moderate income, has been borne out by the results in Michigan and Nebraska.

The public policy that allowed savings promotional raffles in Michigan and Nebraska works. Consumers receive the opportunity to save money, earn interest, and win prizes. The product can also help attract lower-income savers, who have less access to savings products that meet their needs and preferences. While some states will choose to amend laws to allow for a raffle-based product, there are legal frameworks available in most states to allow for a PLS-type product to be offered.

- States have opportunity to change legislation to immediately allow credit unions to offer PLS products.
- Some States will not need to make legislative change.
- PLS in *action*: As of December 2011, Rhode Island, Maine, Maryland, Nebraska, North Carolina, and Washington have new laws to enable credit unions and other financial institutions to offer PLS-raffle-based products.

About D2D

Doorways to Dreams (D2D) Fund strengthens the financial opportunity and security of low and moderate income consumers by innovating, incubating and stimulating new financial products and policies. D2D Fund envisions a world where the financial system promotes lasting social and economic prosperity for every family.

