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PRIZE-LINKED SAVINGS ACCOUNTS

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You asked us to (1) explain what prize-linked savings (PLS) accounts are, (2) identify states that have enacted laws governing them, (3) summarize the main elements of such laws, and (4) indicate how the programs are working.

SUMMARY

PLS account holders generally receive entries for 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>).

PLS accounts are generally governed by federal and state gambling laws. These laws determine whether banks or credit unions can run lotteries, raffles, or sweepstakes. Federal law prohibits banks from running lotteries and raffles. Connecticut law allows only state-operated lotteries, and prohibits banks and credit unions from running raffles. Neither federal nor state law prohibits credit unions and banks from running sweepstakes. If state law were amended to allow credit unions to run raffles, the authorization would likely have to be limited to state-chartered credit unions because the state has very limited regulatory

authority over federally chartered credit unions (see OLR Report [2012-R-0360](#)). House Bill 5564, currently before the Banks Committee, would allow Connecticut credit unions and community banks to offer savings promotion raffles.

PLS accounts are legal in seven states – Maine, Maryland, Michigan, Nebraska, North Carolina, Rhode Island, and Washington. Typically, the laws include requirements specific to the prize that is linked to the savings accounts, disclosure requirements, and the role of the banking commissioner.

There is not a lot of data available to measure the effectiveness of all of the existing PLS programs. However, a study of the Michigan program concluded that since its inception, there has been an increase in access to the program, continued participation by account holders, and an increase in financially vulnerable participants.

STATES THAT HAVE PASSED LEGISLATION ON PLS ACCOUNTS

Prize-linked savings programs were launched in the United States in 2009 by a group of eight Michigan credit unions. At the time of the launching, Michigan's laws allowed credit unions to hold promotional savings raffles. Thus, the state did not have to pass new legislation.

Since 2009, six states (Maine, Maryland, Nebraska, North Carolina, Rhode Island, and Washington), have passed laws to allow credit unions and other financial institutions to hold promotional savings raffles. The laws in Maine, Maryland, and Washington apply to financial institutions; while the laws in Nebraska, North Carolina, and Rhode Island apply only to credit unions (see Table 1).

Table 1: States that have passed Legislation on PLS Accounts

State	Legislation	Statutes Amended	Summary
Maine	SP 0645 (2010)	ME. REV. STAT. ANN. tit. 17 § 1831	Amended gambling and banking law to allow financial institutions to offer savings promotions raffles.
Maryland	SB 886/HB 990 (2010)	MD. CODE ANN. §§ 1-211; 6-716; 12-106; 13-305	Amended commercial and lottery law to allow credit unions to offer savings promotions raffles. A contingency clause prevents credit unions from running prize-linked savings programs until federal law is changed to allow major banks to offer them as well.
	HB 786/SB 1053 (2012)	MD. CODE ANN. §§ 1-211; 6-716; 12-106; 13-305	A bill which took effect June 1, 2012 permits state-chartered and federally chartered financial institutions to participate in savings promotion raffles that are set up as contests where, among other things, "no purchase is necessary".
Michigan	N/A	MICH. COMP. LAWS. § 490.411	Did not require amendment as existing law allowed credit unions to offer savings promotion raffles. "Save to Win" was launched in 2009.
Nebraska	LB 524 (2011)	NEB. REV. STAT. § 9-701	Amended gambling law to allow credit unions to offer savings promotion raffles.
North Carolina	SB 513 (2011)	N.C. GEN. STAT. § 54-109.64	Amended credit union laws to allow savings promotion raffles.
Rhode Island	SB 2399 (2010)	R.I. GEN. LAWS §§ 19-5-29; 42-61-18; 11-19-1.1	Amended credit union and lottery laws to allow credit unions to offer savings promotion raffles.
Washington	SB 5232 (2011)	WASH. REV. CODE §§ 9.46.0356, 19.170.020, 30.22.040, 31.12.402, 30.08.140, and 32.08.140	Amended gambling and banking law to allow financial institutions to offer chance based products.

Source: OLR Review of Statutes

ELEMENTS OF PLS LEGISLATION

The basic elements of PLS laws are prize requirements, disclosure requirements, and the banking commissioner's oversight, responsibilities.

Prize Requirement

Typically, the laws require that the chance to win a prize be contingent on (1) the deposit of a minimum specified sum of money based on the terms and conditions developed for the contest or (2) submission of an entry with no deposit or purchase necessary. Each entry must have an equal chance to win. Also, the credit union or financial institution must maintain books and records relating to the contest or raffle. The raffle must not harm the operation of the credit union or financial institution or mislead the members.

Disclosure Requirement

Typically, the laws also require the credit union or financial institutions to post in any location where entries may be submitted and in any material promoting the raffle or contest a statement describing the terms and conditions of the participation.

Commissioner's Role

Legislation regarding PLS accounts also typically specify the authority of the banking commissioner to examine the conduct of the savings promotion raffles and to issue cease of desist orders if violations are found, except as preempted by federal law.

EFFECTIVENESS OF EXISTING PLS PROGRAMS

Because PLS programs are fairly new, there is limited research on their effectiveness. However, the effectiveness of the Michigan "Save to Win" program has been assessed by the Doorways to Dreams (D2D) Fund, one of the program's supporting partners.

Michigan "Save to Win"

In 2009, eight credit unions incentivized their members to save more regularly by offering raffle prizes tied to a unique savings account. This savings promotion program was called "Save to Win." For every \$25 put into a special savings account, the member received a chance to win prizes through a raffle. Prizes included a \$100,000 jackpot, and smaller monthly prizes. Participants maintain their deposits, plus whatever interest they accrue, irrespective of whether they win additional prizes. According to the D2D Report, Michigan's "Save to Win" program has grown to over 25,000 unique accounts saving more than \$40 million from 2009 to 2011.

The four key evaluation metrics that the D2D Report looked at are (1) increased access, (2) continued participation, (3) service to financially vulnerable participants, and (4) financial capability.

Increased Access. Access to the "Save to Win" product has grown in Michigan, according to the D2D Report. In 2011, the product was available at 47 credit unions and included over 900,000 credit union members with average account-balances of \$2,109.

Continued Participation. The D2D Report indicates that since its inception in 2009, there has been strong and continued participation by existing “Save to Win” accountholders in Michigan. The report attributes this to the fact that the program offers the opportunity to reopen accounts or rollover savings at the end of each year. According to the report, 54% of participants rolled over their accounts from 2009 to 2010. The same report shows that 64% of account holders rolled over their accounts from 2010 to 2011, a 10% increase. The report suggests that the “Save to Win” program motivates participants to build medium and long-term savings as is evidenced by the fact that in December 2011, half of the total active accounts were originally opened in 2009 or 2010.

Service to Financially Vulnerable Participants. “Save to Win” has had a positive impact on financially vulnerable consumers, the D2D Report concluded. After three years of “Save to Win” in Michigan, financially vulnerable accountholders, such as individuals with household income less than \$40,000, have seen an average annual growth in average account balance of 34%.

Financial Capability. The D2D Report indicates that even though “Save to Win” has grown in its first few years, impacting thousands of Michigan accountholders, the program still has the financial capability to expand with opportunities to improve its effectiveness in helping consumers develop a more regular savings habit. The report points to innovation in product and prize design and marketing initiatives to increase and boost long-term engagement.

RESOURCES

Doorway to Dreams Prize-Linked Savings Report (D2D Report), [D2D Report](#).

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