THE WALL STREET JOURNAL.
WSJ.com

January 28, 2015, 7:00 AM ET

Can ‘Lotteries’ at Banks Get People to Save More?

ByCharlie Wells

Savers can win prizes in the ‘Save to Win’ program at Peninsula Credit Union in Washington state.

Peninsula Credit Union

If a bank or credit union invites you to enter a lottery that it says “you just can’t lose,” don’t worry, odds are it’s not a scam or a blatant case of misleading advertising.

A law passed late last year is a first step toward allowing banks to set up contests in which consumers can earn cash prizes for contributing to savings accounts—a type of program already offered by some credit unions. In most cases, banks will still need state legislative action before they can proceed.

“Savings promotion raffles,” as the law calls them, are very different from standard lotteries in which the money used to buy losing tickets reduces the dollars that Americans have available to save.

“We know the savings rate in this country is simply inadequate,” says Sen. Jerry Moran (R., Kan.), who was one of the primary sponsors of the American Savings Promotion Act in the Senate, where it passed by unanimous consent.

The legislation appealed to both the left and the right because it helps consumers build assets but doesn’t aim to create a new federal program or require federal funding, says Rep. Derek Kilmer (D., Wash.), the act’s sponsor in the House.

In countries including the U.K., lotteries that encourage people to save have been popular—and successful—in recent times, says Meir Statman, a professor who researches behavioral finance at Santa Clara University. With names like "no-risk, cash-prize savings raffles" and "prize-linked savings," these programs combine the emotional thrill of winning with the logical notion of saving, he says.

For people who don't have the financial means to save a lot, the contests offer a chance of potentially high returns for saving even a small amount of money—and they can serve as a powerful motivator. Lower-income individuals tend to put a larger share of their income into ordinary lottery tickets than do the wealthy.

"It's very easy for people who put money into 401(k) accounts regularly to scoff at these [savings] lotteries," says Mr. Statman. "But there are people for whom lottery tickets are not a game, they are the hope of getting someplace in life. This is a good compromise for those people."

Consumers should expect to see such programs roll out slowly over the next few years, says Timothy Flacke, executive director of the Doorways to Dreams Fund, a Boston nonprofit group which worked with legislators on the act.

After the U.S. action, he says it is up to states to amend their gambling regulations to permit savings-promotion raffles. State gambling rules vary across the country, and a handful of states, including Washington and Michigan, had already made exemptions for these lotteries at credit unions or didn't have specific bans in place. (In the past, credit unions weren't subject to the same U.S. prohibitions as banks, he says.)

Mr. Flacke says he has already seen an increase in the number of lawmakers in other states interested in bringing forward initiatives.

Jim Morrell, chief executive of Peninsula Credit Union in Shelton, Wash., says consumers have responded favorably to prize-linked savings since the state introduced a program in 2013. Since April 2013, Mr. Morrell says customers opened 276 prize-linked accounts, saving just over $360,000, with 21 winners through December who have won a combined $825. Most prizes at his credit union are made in denominations of either $25 or $50.

"The beauty of it is you really can't lose," he says. "You're essentially buying your entry by paying yourself, you get paid interest on your savings, you have the potential to win money, and at the end of it all your savings are still yours."