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Credit unions launch a savings lottery, and everyone hits the jackpot

By Anne Stuhldreher
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Highland Park, Mich., is the last place you'd expect to find more people saving money these days. One-third of the residents live below the poverty line, and everyone sees the blight of vacant homes, abandoned furniture and dumped tires. It seems like a ridiculous place to launch an experiment to turn nonsavers into regular savers.

But eight Michigan credit unions, including one in Highland Park, have helped build people's savings by doing something radical: acting less like financial institutions and more like the lottery.

Bank deposits don't get people's hearts pumping, but scratch-off tickets do. The average American household snaps up about $500 annually in lottery tickets, whose appeal is especially strong among those with lower incomes. Some estimates suggest that more than 80 percent of lottery revenue comes from households making less than $50,000 a year -- the very people who have the hardest time saving. In fact, 38 percent of people earning less than $25,000 a year think the lottery is the most practical way they'll accumulate a few hundred thousand dollars in their lifetimes, according to the Consumer Federation of America.

To redirect that money, the credit unions explored how they could blend the excitement of the lottery with the certainty of socking away cash. After all, both are about pursuing aspirations. (One is just a much more fun way to do it.) In January 2009, the credit unions declared that for every $25 someone saved, the saver would earn an entry into a drawing for a $100,000 prize one year later. At the same time, they gave out monthly prizes of up to $100. The credit unions also hoped to attract new members and expand their deposit bases. So as part of the program, people could join a credit union and open an account to bid for the prize at the same time.

Many doubted that "Save to Win" would work anywhere, let alone in Michigan, the land of double-digit unemployment. Even though the national savings rate has ticked up recently, too many Americans lack the financial cushion to survive even a minor emergency. A recent survey by market research firm TNS Global and a group of Ivy League academics asked: If you had to come up with $2,000 over the next month, could you do it? Only 25 percent of respondents were sure they could. And 48 percent were either uncertain or very uncertain that they could.

Yet Save to Win produced stunning results. More than 11,000 Michigan residents opened accounts through the contest, saving $8.6 million throughout 2009. People can open the accounts -- they're like certificates of deposit -- with as little as $25. They need to keep their money in for at least a year and can make deposits as small as $1 as often as they like.

More than half of the participants said they hadn't saved regularly before opening their accounts. About 60 percent admitted they played the lottery during the past six months. And 44 percent earned less than $40,000.

Highland Park's Communicating Arts Credit Union led the charge. It had tried a lot of things to get its members to save, including offering a CD with a whopping 10 percent interest rate, but nothing worked, according to chief executive Hank Hubbard. But 15 percent of its members opened Save to Win accounts, the highest rate among the eight credit unions. "We were very surprised," Hubbard said. "It's a breathtaking penetration rate, especially for a new product and one focused on saving, since that's something our members don't do."

Rhonda Robinson, a sewing machine operator, was one of the credit union members who decided to give it a try. "I'm someone who can't save," she said. "I just want to win the big money." But she stopped buying pizza every Friday and cut out snacks, freeing up $20 that is automatically deducted from her checking account. "It's like scratching off a lotto ticket," she said. "Except then sometimes you win and sometimes you lose. In this case, you always win."

Using lotteries to spur savings is new in the United States, but the model has succeeded in countries from South Africa to Sweden, says Peter Tufano, a professor at Harvard Business School who dreamed up Save to Win after studying foreign examples. Through the Doorways to Dreams Fund, a nonprofit he chairs, Tufano hopes to expand the program. But not everywhere will be as receptive as Michigan. Most states forbid competition with their own lotteries. And regulations make it hard for banks to follow the credit unions' lead. Laws might need to change.

But if Save to Win proved that saving and playing the lottery can go together, maybe the 42 state-run lotteries should get in on the savings game. There are approximately 200,000 locations that sell lottery tickets in this country, compared with 99,000 bank branches. Behavioral economists emphasize that the best way to get people to do something isn't to change behavior, but to redirect an existing behavior. Imagine going to the corner store, picking up a quart of milk and buying a ticket that would let you save $20 while still scratching it off to see if you won big. This isn't a pie-in-the-sky idea, but one that Tufano has been discussing with some the nation's largest lotteries.

Cash-strapped states might worry that offering such a savings lottery would cut into their existing lottery revenue, which helps fund schools and other services. But turning nonsavers into regular ones is just as important. States are slashing their safety nets for families in need. This idea could help families grow their own personal safety nets. Then states would probably have fewer residents who are just one broken-down car or broken bone away from disaster.

I hope financial institutions look closely at Save to Win. Not just at 86-year-old Billie June Smith, the retired day-care supervisor who was beaming as she accepted her grand prize $100,000 check on Thursday, but at the impressive amount that everyone else saved as well.

It's possible to offer consumers what they want while giving them what they need. If the local bank can't help Americans save, maybe the convenience store can.

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