

The American Savings Promotion Act

Moran (KS) | Brown (OH)

Savings Help Americans Climb the Economic Ladder

- Savings is a key component of economic mobility—helping Americans climb the economic ladder and cushioning them from financial shocks that would threaten to reverse their progress. The Pew Foundation’s Economic Mobility Project found that 71 percent of children born to high-saving but low-income parents move up from the bottom income quintile over one generation, compared to only 50 percent of children from similarly low-income households whose parents do not save.¹

Yet Few Americans Save

- Americans’ personal savings rate has declined about 56 percent over the past 50 years according to the 2013 Economic Report of the President. In 2012, the annual savings rate in the United States was just 4.1 percent.
- More than 40 percent of American households lack the savings to cover basic expenses for 3 months if an unexpected event leads to a loss of stable income.

A New and Innovative Approach to Savings Can Help Americans Meet Future Financial Needs

- Prize-linked savings (PLS) accounts make savings fun and exciting by offering participants chances to win prizes based on deposit activity—the more one saves, the more chances he or she has to win prizes.
- PLS accounts are safe, regulated financial products offered by financial institutions but with the added feature of offering the account holder chances to win prizes. Money in the account is never at risk, so even if someone does not win a prize, they still maintain all of their savings.
- PLS products offer a market-based solution to increasing savings that does not require any public subsidy.
- PLS accounts have proven to attract people who previously did not save and those with low incomes—helping Americans build a safety net for themselves, preparing them to meet future financial needs, and providing an alternative to costly credit.

Federal Barriers Prevent the Expansion of Prize-linked Savings Accounts

- While PLS products have great promise, a broadly-written 1960s law banning banks from operating lotteries unintentionally precludes banks and thrifts from offering PLS products.
- More than half a dozen states have changed applicable state laws to allow credit unions within their borders to offer PLS products, but federal law limits the expansion of this savings-enhancing tool to other financial institutions.

A Bipartisan Solution to Reward Savings

- The American Savings Promotion Act creates a narrow exemption for PLS products while maintaining the ban on federally-insured financial institutions from operating lotteries.
- By removing federal barriers to banks and thrifts offering PLS products, the American Savings Promotion Act clears the way for states to enable all interested financial institutions in their jurisdiction to offer PLS products.
- Companion legislation will be introduced in the House by Rep. Derek Kilmer (D-Wa.) and Rep. Tom Cotton (R-Ar.).

¹ Reid Cramer, Rourke O’Brien, Daniel Cooper, and Maria Luengo-Prado, “A Penny Saved is Mobility Earned: Advancing Economic Mobility Through Savings,” Pew Charitable Trusts, Economic Mobility Project, November 2009.