Gambling for good can increase low income saving by 25 per cent

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Low income households could increase their savings by over 25 per cent if bank accounts with a regular lottery prize for depositors were introduced in Australia, University of Sydney economists have found.

So-called prize-linked saving (PLS) accounts have already been adopted by financial institutions in over 20 countries, including the United States. Similar to a traditional savings account, PLS accounts guarantee the principle and also provide a lottery for a large prize.

Professor Robert Slonim, Doctors Kadir Atalay and Stephen Cheung, and honours student Fayzan Bakhtiar of the School of Economics tested the uptake and outcome of prize-linked saving with over 500 individuals as part of an online experiment.

The savers were asked to allocate a $100 budget. They could choose to receive that cash amount within two weeks of the end of the experiment, put it into a traditional savings account, use it to enter a lottery, or put it into a PLS account.

The economists found that PLS can not only increase existing saving by those on low incomes, but it can also help those who have no savings at all to start the process by redirecting lottery ticket expenditure into PLS accounts.

"Our study shows that PLS accounts indeed increases total savings quite dramatically - by over 25 per cent when PLS accounts became available

- and that the demand for the PLS account comes from reductions in lottery expenditures and current consumption," said Professor Slonim.

For the economists' experiment, money allocated to the prize-linked savings account provided a guaranteed payoff of the principal investment plus entry into a lottery that had a payoff of $1,000.

The economists believe the PLS could offer a novel, market-based solution to a serious social issue: how to encourage low-income households to build up savings to protect them against financial shocks.

"Low saving is a central policy issue in Australia, common to all industrial economies. Public policy reforms worldwide have sought to stimulate saving by low income households, as a form of self-insurance for those most vulnerable to economic and social shocks," said Dr Atalay.

Professor Slonim said: "The availability of PLS products from the private sector could nudge households towards saving more in the same manner that the framing of choices and the setting of default options has been shown to have an effect on other household decisions, without having to either mandate changes in savings behaviour or involve potentially costly government programs.

"Our study shows that PLS accounts should be considered as one of the plausible market-based solutions to encourage individuals, specially low income individuals, to increase saving," he added.

The results are published in the *Journal of Economic Behavior & Organization*.

More information: Kadir Atalay, Fayzan Bakhtiar, Stephen Cheung, Robert Slonim, "Savings and Prize-Linked Savings Accounts," *Journal*

of Economic Behavior & Organization, Available online 28 August 2014, ISSN 0167-2681, dx.doi.org/10.1016/j.jebo.2014.07.015.

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