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## Race and Financial Capability in America: Understanding the Native American Experience

### Summary

With survey data from the FINRA Investor Education Foundation's 2015 National Financial Capability Study, this issue brief examines financial capability by race, with a focus on Native Americans. The data suggest that Native Americans have higher levels of financial fragility and distress than many other groups. Native Americans also lag whites and Asian-Americans on many measures of financial capability, demonstrating lower levels of financial knowledge and lower use of formal financial products, but are on par with African-Americans and Hispanics. This research suggests that Native Americans are less likely to learn about managing finances from parents and that they demonstrate lower levels of confidence in managing their money. However, there are different experiences within the Native American community. Higher-income Native Americans display much higher levels of financial capability than lower-income Native Americans, as do men and older Native Americans, but to a lesser degree. The findings in this brief suggest there is still much work to be done to provide opportunities for Native Americans to develop their financial knowledge and skills.

### Background

Low financial literacy is a national challenge. According to the 2015 National Financial Capability Study (NFCS) conducted by the FINRA Investor Education Foundation, only 14 percent of respondents age 18 and over were able to answer five financial knowledge questions correctly on a basic five-question financial literacy quiz, and only 37 percent were able to answer four or five questions correctly.<sup>1</sup> Financial literacy is an issue at younger ages, as well. Data from OECD's Programme for International Student Assessment (PISA) indicate that American youth are slightly below average in financial literacy, trailing a number of countries, including Belgium, Estonia and Australia.<sup>2</sup> And beyond financial knowledge, financial behavior is also a concern. The 2015 NFCS concluded that although the recovering economy and job market have improved financial situations and behaviors for many, there are segments of American society whose financial capability and financial circumstances are not improving.

Low financial literacy is also a challenge in Native American communities. A recent study by the Office of Retirement and Disability Policy at the Social Security Administration found that Native American respondents were significantly less likely than any other ethnic group to correctly answer questions on an 18-item assessment.<sup>3</sup> The national *Financial Literacy of Native American Youth Report* (2007), funded by the Jump\$tart Coalition, First Nations Oweesta Corporation and Merrill Lynch, showed that nearly 87 percent of Native American high school seniors in their study received a “failing” score in financial literacy, compared to 62 percent of all students.<sup>4</sup> Recent research with Native American high school students suggests that many do not have financial role models in their families. High poverty levels across multiple generations means that many youth lack financial management experience and have few opportunities to develop personal finance skills.<sup>5</sup> There is still much work to be done to provide effective financial capability programs that serve Native communities and provide opportunities for individuals to develop their financial knowledge, experience and behaviors.

While these few studies on the financial capability and financial behaviors of the Native American community exist, not much else is known about the financial behavior of Native Americans because they are a small portion of the U.S. population (about 2 percent) that is difficult to survey. The 2015 NFCS is a large-scale survey research project (n > 27,000) that has 591 Native Americans in the sample. These Native American respondents may not be completely representative of the Native American community in America, but this unique and relatively large sample gives us an opportunity to better understand the financial knowledge and financial behavior of Native Americans—especially relative to other racial and ethnic groups. However, to fully understand the financial capability of different racial and ethnic groups in America, it is important to understand the demographic differences that could affect financial behavior and attitudes. Figure 1 shows the demographic characteristics for different racial and ethnic groups in the 2015 NFCS.

**Figure 1. Demographics by Race and Ethnic Identity**

	Native American	Asian-American	African-American	Hispanic	White
Mean Age	41	40	44	37	49
Sample Size	591	1,228	2,703	2,700	19,836
<i>Percent</i>					
Female	61%	53%	57%	47%	51%
Household Income >= \$50,000	31%	60%	33%	45%	53%
Married	41%	52%	31%	46%	58%
Dependents	37%	35%	36%	45%	34%
Unemployed	6%	2%	5%	5%	3%
College Degree	21%	51%	23%	26%	27%

Source: 2015 National Financial Capability Study (State-by-State Survey)

For the most part, Native Americans are younger, more likely to be female, and have lower incomes and higher unemployment than other groups in the NFCS. With this backdrop, let’s take a look at the various aspects of financial capability viewed through the lens of racial and ethnic identity.

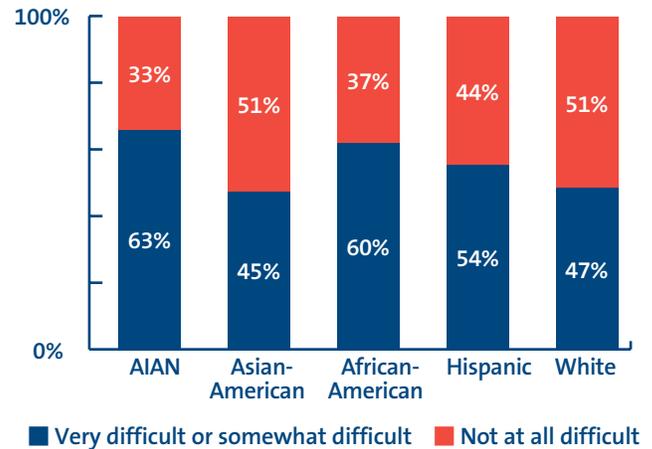
## Key Components of Financial Capability

Financial capability cannot be measured simply by looking at one indicator, such as demonstrated knowledge of specific terms or concepts. Instead, financial capability encompasses multiple aspects of behavior relating to how individuals manage their resources and how they make financial decisions (including the factors they consider and the skill sets they use). It is a multi-dimensional concept that requires looking at individual behavior from various angles. This report focuses on the following four key components of financial capability: Making Ends Meet, Planning Ahead, Managing Financial Products and Financial Knowledge and Decision-Making. (See *Financial Capability in the United States 2016* for more information about how financial capability is defined in the NFCS, and for additional data on the financial capability of Americans.) Throughout the report, we often refer to Native Americans as AIAN (American Indian or Alaska Native) because that is how it was defined in the NFCS and it is a more specific term, but we also use Native American at times to improve readability.

### Making Ends Meet

AIAN populations reported higher levels of financial distress than most other ethnic groups. Sixty-three percent of AIAN respondents indicated that it was very difficult or somewhat difficult to cover expenses in typical month—compared to 45 percent for Asian-Americans and 47 percent for whites (Figure 2).

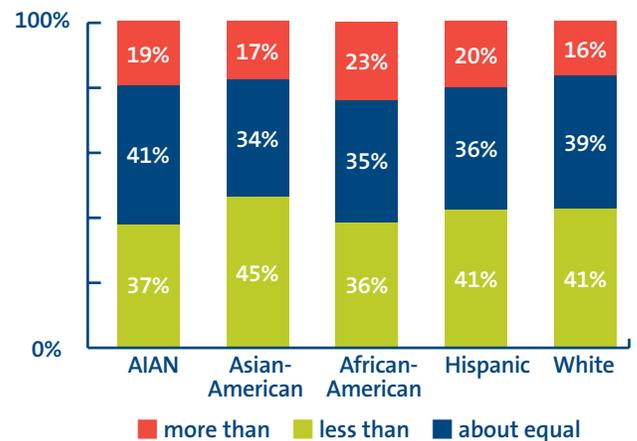
Figure 2. In a typical month, how difficult is it for you to cover your expenses and pay all your bills?<sup>6</sup>



Source: 2015 National Financial Capability Study (State-by-State Survey)

When asked to report on whether they spend less than, more than, or about as much as they earned, 19 percent of AIAN respondents said they spend more than they earned, which is on par with other groups. And 37 percent of AIAN respondents said they spend less than they earn, which is lower than Asian-Americans but similar to the other groups (Figure 3).

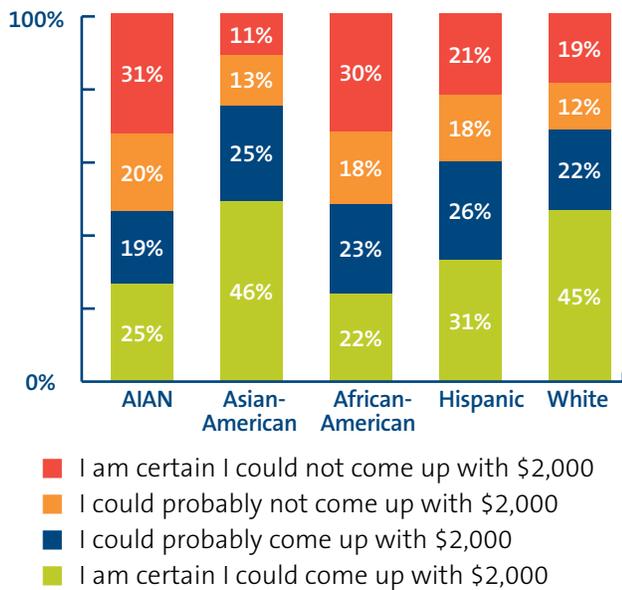
Figure 3. Over the past year, would you say your spending was less than, more than, or about equal to your income?



Source: 2015 National Financial Capability Study (State-by-State Survey)

Financial fragility is the lack of financial liquidity to deal with an unexpected expense, and is measured by asking the respondents if they would be able to come up with \$2,000 if an unexpected need arose in the next month. Over half of AIAN respondents (51 percent) said they probably or certainly could not come up with the money (Figure 4). This is a much larger share than for white, Hispanic and Asian-American populations. This finding points to high levels of financial strain for AIAN populations as well as African-Americans, among whom 48 percent could probably or certainly not come up with the \$2,000.

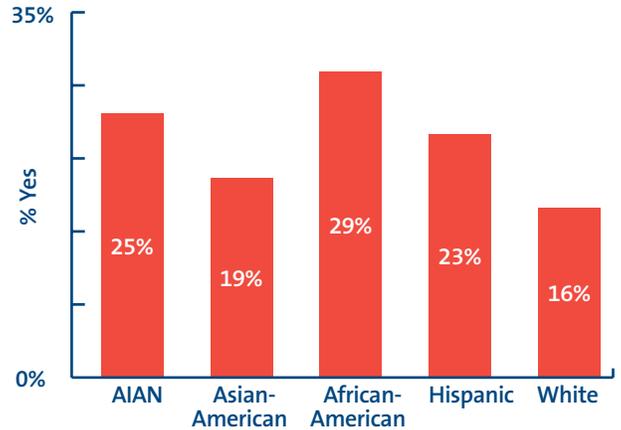
**Figure 4. How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Another measure of financial distress is whether individuals have overdrawn their checking account. Among all respondents in the NFCS, 19 percent reported occasionally overdrawing their checking accounts. When breaking answers down by groups (Figure 5), AIAN respondents were more likely to overdraw these accounts (25 percent)—second to African-Americans (29 percent).

**Figure 5: Do you overdraw your checking account occasionally?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

We examined other aspects of financial liquidity, looking at the percent of the population that received money in the last 12 months from family members not in their household. Our analysis suggests that AIAN respondents are the most likely to receive money from family members who do not live in their household (26 percent), indicating strong social networks for making ends meet. However, except for white respondents, most other groups indicate similar levels of support from family members outside their households, indicating that this is an important source of income in many communities (Figure 6).

**Figure 6. Percent Receiving Money from Family Members**

	AIAN	Asian-American	African-American	Hispanic	White
Over the past 12 months, have you received any money from family members who do not live in your household?	26%	24%	24%	23%	16%

Source: 2015 National Financial Capability Study (State-by-State Survey)

Up until this point, the relationship between racial and ethnic identity and financial behavior has been investigated in a bivariate fashion—that is, by looking at how financial behaviors vary with only racial and ethnic identity. Yet people have many characteristics beyond their racial and ethnic identity that can affect their financial experiences—for example, their income level or their age. In reality, financial behaviors and experiences are likely influenced by a mix of factors. Regression analysis is a tool that can be used to assess the relationships among these variables simultaneously and isolate variables of interest. So, for example, the strength of the relationship between racial identity and difficulty covering monthly expenses can be examined while holding constant other important variables like income and age.

Figure 7 presents the results of a regression model predicting how difficult it is to cover one’s monthly expenses. After controlling for demographic variables, these results provide some insight into the relationship between financial stress and ethnic identity. As indicated by the odds ratio (OR) for AIAN, the predicted odds of having difficulty making ends meet is 1.41 times higher (or 41 percent higher) for AIAN respondents than white respondents. That said, having dependents in a household is also strongly related to financial strain. Households with dependents are 1.86 times (or 86 percent) more likely than households without dependents to have difficulty paying their bills. Not surprisingly, household income, with an odds ratio of 0.3, is strongly and negatively related to difficulty paying bills. The odds of a household with \$50,000 or more in income having difficulty paying their bills is only 0.3 times as high—or 70 percent lower—than a household with less than \$50,000.

Figure 7. Factors Related to Making Ends Meet



Source: 2015 National Financial Capability Study (State-by-State Survey)

Notes: All variables in the model except Hispanic, Asian-American and Age 35 – 54 are significant at the 0.01 alpha level. The reference group for the age variable is Age 18 to 34 and the reference group for the race and ethnic identity variable is white. Logistic regression was used. The dependent variable is the question “In a typical month, how difficult is it for you to cover your expenses and pay all your bills?” where “Very difficult and Somewhat difficult” are coded as 1 and “Not at all difficult” is coded as 0.

**Planning Ahead**

Many Americans experience certain predictable life events that require planning, including financing one’s retirement and funding the cost of a child’s post-secondary school education. Additionally, because the future is inherently uncertain, individuals and families also need to make provisions to buffer themselves against financial emergencies or shocks. Being able to weather shocks not only contributes to financial stability at the individual and family level, but also increases the stability of the economy as a whole.

While individuals increasingly have to take responsibility for their financial security after retirement, the majority of Americans do not appear to have done much retirement planning. Thirty-nine percent of respondents have tried to figure out how much they need to save for retirement. As shown in Figure 8, the percentage of AIAN respondents who indicated that they have tried to figure out how much they need to save for retirement is the lowest among all groups at 33 percent, although African-Americans (36 percent) and Hispanics (35 percent) are nearly as low. Forty-one percent of whites and Asian-Americans have tried to figure out how much they need to save for retirement. The act of planning for retirement has been shown to be a strong positive indicator of retirement wealth.<sup>7</sup>

**Figure 8. Planning for Retirement**

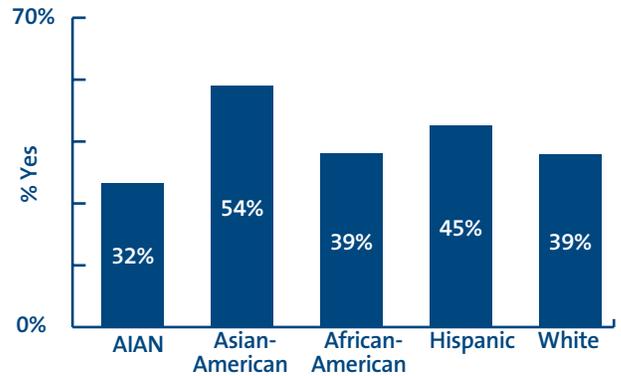
	AIAN	Asian-American	African-American	Hispanic	White
Have tried to figure out how much to save for retirement	33%	41%	36%	35%	41%

Source: 2015 National Financial Capability Study (State-by-State Survey)

Tuition and fees at four-year public colleges and universities have increased over the past five years (adjusted for inflation).<sup>8</sup> Even if this trend is slowed, an average American family with children can expect to allocate a sizable share of their resources to paying college tuition. The percentage of Americans saving for college has increased from 31 percent in 2009 to 41 percent in 2015. Still, less than half of those with financially dependent children are setting aside money for their children’s college education. The AIAN

population appears to be significantly less likely to be saving for children’s education, with only 32 percent setting aside money for this purpose (Figure 9).

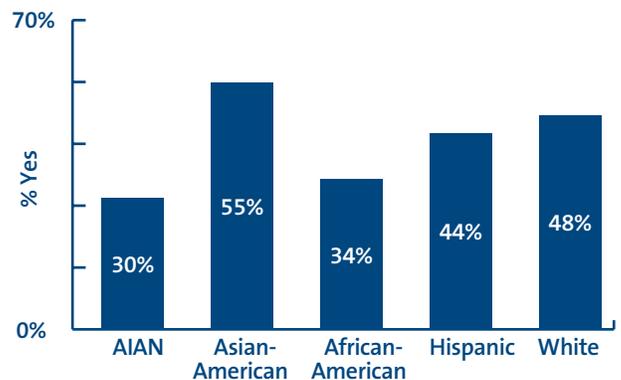
**Figure 9. Are you setting aside any money for your children’s college education?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Emergency savings or “rainy day” funds are an important element of planning for the financial future. Only 30 percent of AIAN respondents stated that they have set aside funds sufficient to cover expenses for three months in case of sickness, job loss, economic downturn or other emergency (Figure 10). As a result, many individuals and families would not be able to draw on personal financial resources if they were faced with an economic shock. AIAN populations are the least likely to have an emergency savings fund in place, although only slightly lower than African-Americans.

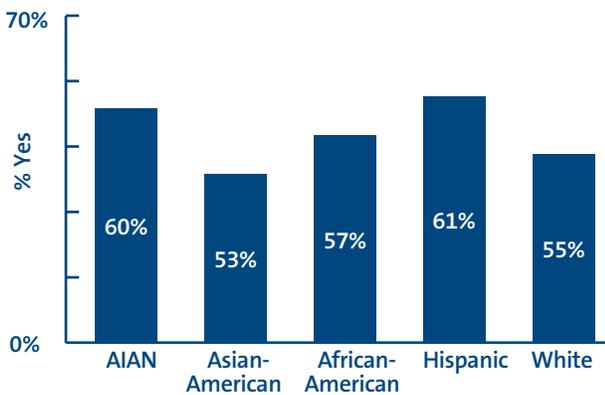
**Figure 10. Have you set aside emergency or rainy day funds that would cover your expenses for three months, in case of sickness, job loss, economic downturn, or other emergencies?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Having a budget can also be a way to plan for the future and set aside savings. The 2015 NFCS includes several new questions on household budgeting and planning. Over half of all respondents (56 percent) report having a household budget to decide what share of income will be used for spending, saving or paying bills (Figure 11). The percentage of respondents who have a household budget is fairly consistent across gender, age and income groups. AIAN respondents are somewhat more likely to have a budget than other groups (60 percent).

Figure 11. Does your household have a budget?



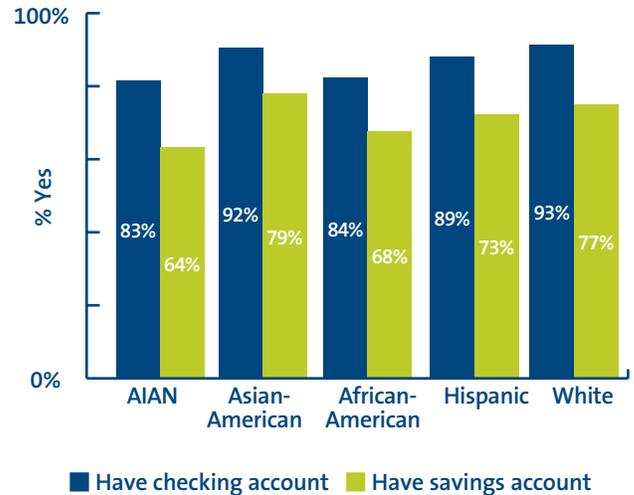
Source: 2015 National Financial Capability Study (State-by-State Survey)

### Managing Financial Products

Every individual and household must manage a potentially confusing range of financial products in the course of their lives, including saving and investing vehicles, payment tools and credit products. Making informed decisions about which products to use and how to use them can determine whether one experiences successful financial outcomes or encounters financial distress.

Eighty-three percent of AIAN respondents reported having a checking account, the lowest among all groups, although African-Americans are only slightly higher (Figure 12). This finding is similar to findings in other studies, and suggests that AIAN populations may be less likely to use formal financial products.<sup>9</sup> Similarly, only 64 percent of AIAN respondents have a savings account, money market fund or CD—a significantly lower figure than the other groups except for African-Americans (68 percent).

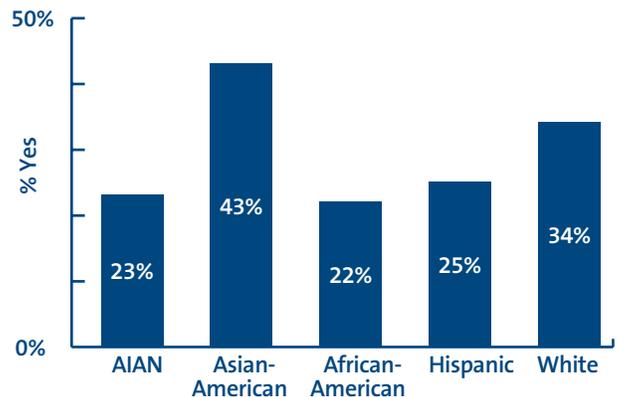
Figure 12. Do you have a checking account and savings account?



Source: 2015 National Financial Capability Study (State-by-State Survey)

The 2015 NFCS survey also asked respondents if they had any investment in stocks, bonds, mutual funds or other securities outside of retirement accounts—that is, taxable investment accounts. Twenty-three percent of AIAN respondents reported having taxable accounts, significantly lower than Asian-Americans and white respondents, but on par with African-Americans and Hispanics (Figure 13).

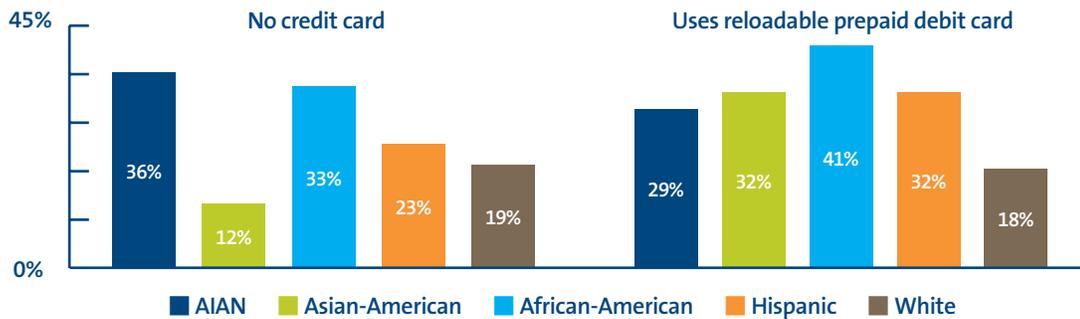
Figure 13. Do you own non-retirement investment accounts?



Source: 2015 National Financial Capability Study (State-by-State Survey)

A common way in which many Americans borrow is through the use of credit cards. A large majority of Americans (77 percent) have at least one credit card, and over a quarter (26 percent) report having four or more cards. Figure 14 shows that AIAN respondents were less likely to have a credit card (36 percent had no cards) than other groups. AIAN use of reloadable prepaid debit cards is on par with Hispanics and Asian-Americans (about a third of these groups use them), significantly lower than African-American usage (41 percent) and significantly higher than whites (18 percent). It is unclear if the higher use of reloadable prepaid debit cards among some groups is related to access to affordable credit.

Figure 14. Use of Credit Cards and Reloadable Prepaid Debit Cards



Source: 2015 National Financial Capability Study (State-by-State Survey)

A sizable share of Americans engage in non-bank forms of borrowing, such as taking out an auto title loan or a payday loan, using a pawn shop or using a rent-to-own store. These borrowing methods may be likely to charge higher interest rates than those charged by banks, credit unions or credit card companies. Moreover, as widely reported in financial literacy literature, use of these products often indicates individuals have limited or poor credit histories, lack of access to more traditional sources of credit or both.

Previous research suggests that AIAN populations are less likely to use mainstream financial services products and more likely to use alternative financial services products,<sup>10</sup> and the data bear this out. Over a quarter of all respondents (26 percent) have used at least one non-bank form of borrowing (aka high-cost borrowing and alternative financial services) within the past five years, and 12 percent have used two or more. AIAN respondents were more likely to use alternative borrowing methods, on par with African-Americans and Hispanics. As seen in Figure 15, pawn shops are the most popular alternative borrowing method, with 24 percent of AIAN respondents reporting that they used a pawn shop in the past five years (compared to 16 percent of the larger population). Further, 37 percent of AIAN respondents report using at least one form of high-cost borrowing in the last five years, on par with African-Americans and Hispanics and much higher than Asian-Americans and whites.

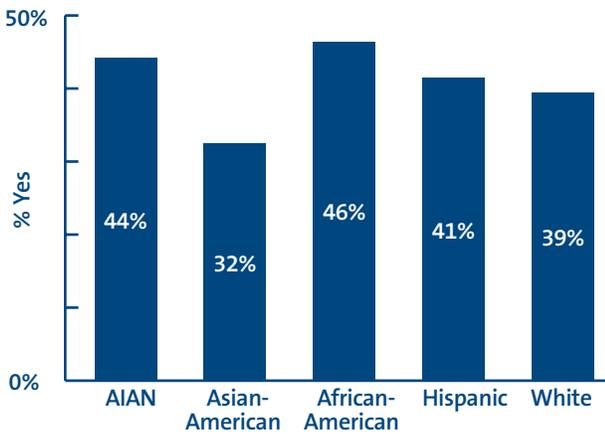
Figure 15. Use of Non-bank Borrowing Methods

Non-bank borrowing methods used at least once in the past five years	AIAN	Asian-American	African-American	Hispanic	White
Pawn shop	24%	14%	25%	23%	13%
Short-term “payday” loan	17%	13%	21%	17%	9%
Rent-to-own store	12%	10%	16%	14%	8%
Auto title loan	11%	13%	13%	13%	8%
Used one or more	37%	21%	39%	34%	21%

Source: 2015 National Financial Capability Study (State-by-State Survey)

The 2015 NFCS asked participants whether they felt that they had too much debt, an indicator of financial distress. In the 2015 NFCS, two out of five respondents (40 percent) reported feeling that they had too much debt (5 to 7 on a 7-point scale, where 1 means they strongly disagree that they have too much debt and 7 means that they strongly agree that they have too much debt) showing little change from the 42 percent in 2012. As seen in Figure 16, for the AIAN population, 44 percent of respondents reported feeling that they have too much debt—second to African-American respondents (46 percent), and notably higher than white respondents (39 percent) and Asian-American respondents (32 percent).

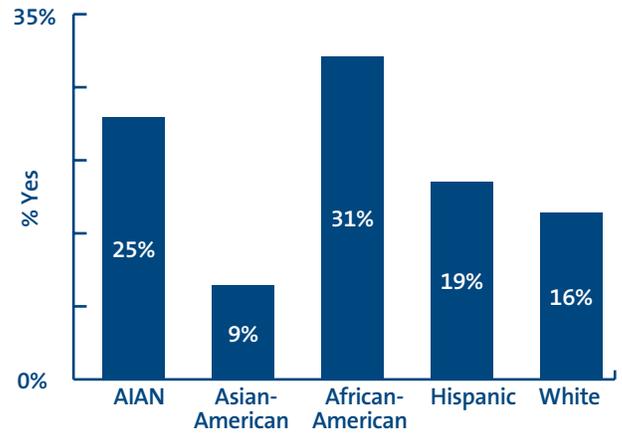
**Figure 16. Perceptions of Debt—Percent Worried That They Have Too Much Debt**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Another measure of financial distress is whether you have been contacted by a debt-collection agency. An average of 18 percent of all respondents said they had been contacted by a debt-collection agency in the past year. In contrast, Figure 17 shows that 25 percent of AIAN respondents report having been contacted by a debt-collection agency in the past year, higher than most other groups but somewhat lower than African-American respondents (31 percent).

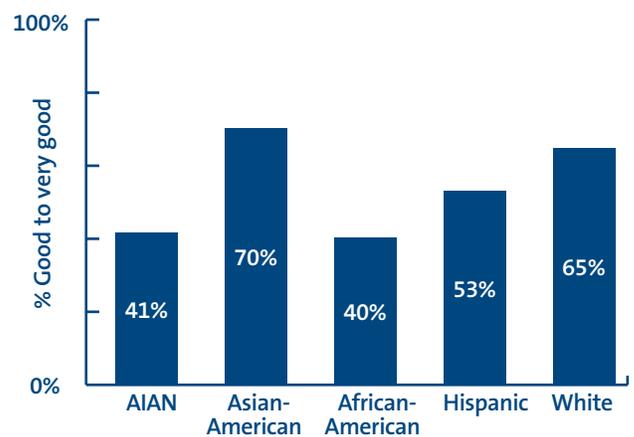
**Figure 17. Have you been contacted by a debt-collection agency in the last 12 months?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Despite feelings of being overwhelmed by debt, a majority of Americans (60 percent) believe they have good or very good credit.<sup>11</sup> As seen in Figure 18, this optimism is not reflected in the AIAN responses where only 41 percent believe they have good or very good credit. This is in contrast to Asian-Americans where 7 in 10 respondents believe they have good or very good credit.

**Figure 18. How would you rate your current credit record?**



Source: 2015 National Financial Capability Study (State-by-State Survey)

### Financial Knowledge and Decision Making

In order to make sound financial decisions, individuals need to be equipped not only with at least a rudimentary level of financial knowledge, but also with the skills to apply what they know to actual financial decision-making situations. This report looks at measures of financial knowledge and financial behavior. As the survey data demonstrate, all too often, a gap exists between self-reported knowledge and real-world behavior for all populations.

To evaluate financial knowledge, respondents were exposed to a series of questions covering fundamental concepts of economics and finance that may be encountered in everyday life, such as calculations involving interest rates and inflation, principles relating to risk and diversification, the relationship between bond prices and interest rates, and the impact that a shorter term can have on total interest payments over the life of a mortgage.<sup>12</sup>

As illustrated in Figure 19, the survey reveals relatively low levels of financial literacy among all Americans as measured by these standard questions, and the percentage of correct responses is lower than the general population among AIAN respondents on most questions. However, when compared with other ethnic groups, AIAN respondents' financial literacy levels are on the low side, but far from the lowest. For example, we categorize a respondent as highly financially literate if they can answer four or more questions correctly on a basic five-question financial literacy quiz. Only 20 percent of African-Americans, 26 percent of Hispanics and 27 percent of AIAN respondents are classified as highly financially literate. These three ethnic groups trail Asian-Americans and whites by a wide margin; 38 percent of Asian-Americans and 43 percent of whites are considered highly financially literate.

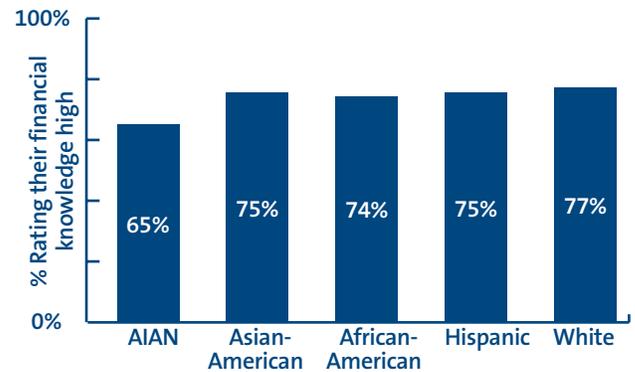
Figure 19. Financial Literacy

% correct	Total Respondents	AIAN Respondents
Interest rate question	75%	73%
Inflation question	59%	52%
Bond price question	28%	18%
Mortgage question	75%	66%
Risk question	46%	34%

Source: 2015 National Financial Capability Study (State-by-State Survey)

Despite relatively low levels of financial literacy as measured by the quiz questions, most Americans tend to have positively biased self-perceptions of their financial knowledge. When asked to assess their own financial knowledge, over three quarters of respondents (76 percent) gave themselves high marks (5 to 7 on a 7-point scale, where 1 = “very low” and 7 = “very high”). AIAN respondents were less likely to state that they had high levels of financial knowledge, but still nearly two thirds (65 percent) reported high levels of financial knowledge.

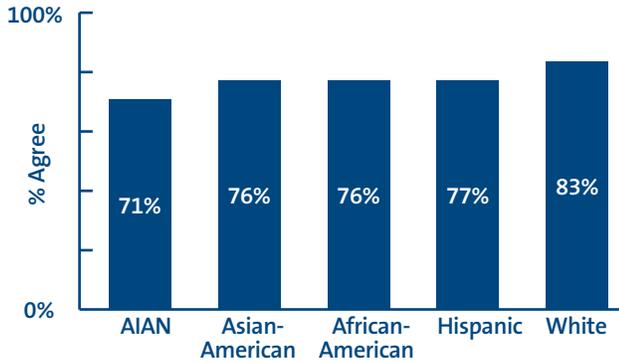
Figure 20. How would you assess your overall financial knowledge?



Source: 2015 National Financial Capability Study (State-by-State Survey)

The survey data also show a potential disconnect between perceptions and actions in day-to-day financial matters. When asked how good they are at dealing with day-to-day financial matters (such as managing checking accounts and credit cards), a large majority of Americans, 81 percent, rated themselves positively (5 to 7 on a 7-point scale where 1 = “very low” and 7 = “very high”). As seen in Figure 21, AIAN respondents had slightly lower self-assessments; they were less likely than other groups to say they agreed with the statement “I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses.” That said, the majority of AIAN respondents (71 percent) did agree with this statement.

**Figure 21. Percent Who Agree that They are Good at Handling Day-to-Day Finances**



Source: 2015 National Financial Capability Study (State-by-State Survey)

To improve the financial capability of Americans, efforts have been launched by colleges, workplaces, nonprofits and government agencies to provide financial education resources to the American people, but exposure to financial education is generally low. Slightly less than a third (31 percent) of all respondents to the NFCS report having been offered financial education at a school, college or workplace, and 21 percent say they participated. This compares to 29 percent of AIAN respondents being exposed to financial education and 22 percent participating in a financial education program (Figure 22). The AIAN responses for these questions are very similar to the other groups.

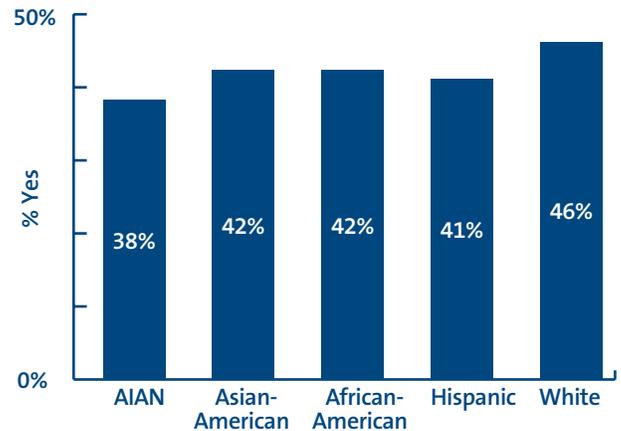
**Figure 22. Financial Education**

Was financial education offered by a school or college you attended, or a workplace where you were employed?					
	AIAN	Asian-American	African-American	Hispanic	White
Yes, did not participate	7%	15%	12%	12%	9%
Yes, did participate	22%	23%	25%	22%	20%
No	56%	51%	53%	55%	62%
Don't know	13%	10%	9%	10%	10%
Prefer not to say	1%	1%	1%	1%	0%

Source: 2015 National Financial Capability Study (State-by-State Survey)

The NFCS asked a question about whether parents or guardians provided guidance regarding how to manage finances. This is another measure of the exposure an individual may have to financial education. There is a noteworthy difference among AIAN respondents and other respondents to this question. As shown in Figure 23, only 38 percent of AIAN respondents report receiving information from their parents or guardians about how to manage finances, compared to 46 percent of white respondents. This supports previous research that suggests that the AIAN population is less likely to have intergenerational role models when it comes to financial matters.<sup>13</sup>

**Figure 23. Did your parents or guardians teach you how to manage your finances?**



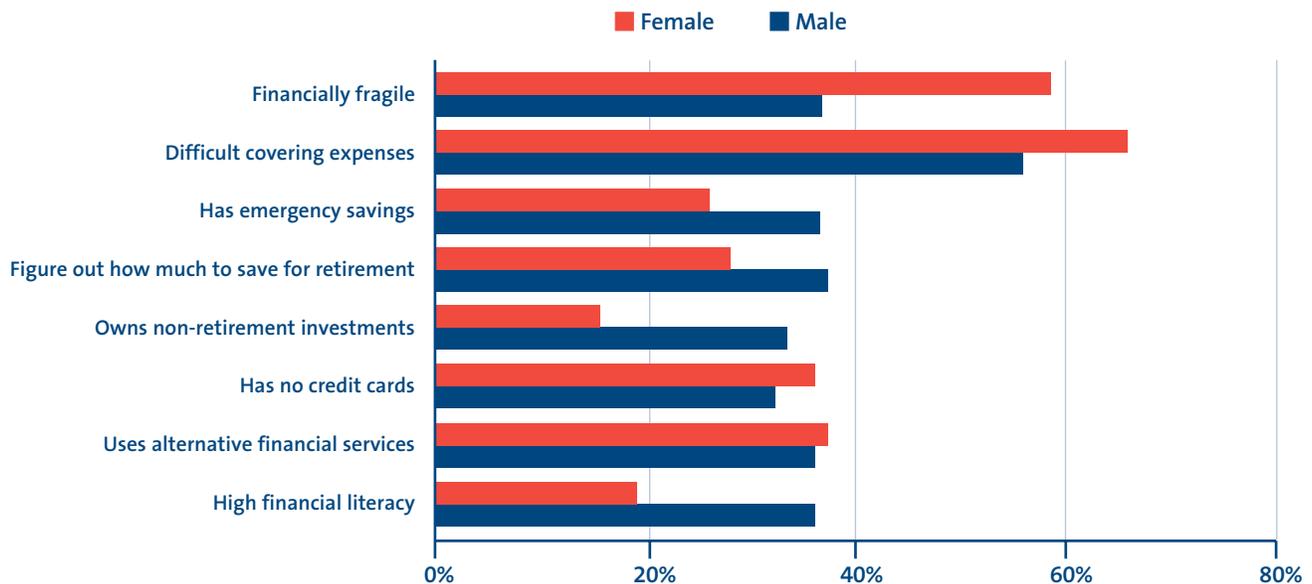
Source: 2015 National Financial Capability Study (State-by-State Survey)

## Demographic Differences Among Native Americans

Native Americans are not a monolithic group, and there is significant variability in financial capability levels among key demographic groups in the Native American community. In short, female, young and lower-income AIAN respondents tend to have lower levels of financial capability relative to male, older and higher-income groups.

Figure 24 shows how eight key measures of financial capability—that span the general areas of Making Ends Meet, Planning Ahead, Managing Financial Products and Financial Knowledge and Decision-making—vary by gender. AIAN women have lower levels of financial capability on all measures, but they differ from AIAN men dramatically on the financial fragility, financial literacy and emergency savings measures—and they are much less likely to own non-retirement investments. For example, 59 percent of AIAN women are considered financially fragile compared to 37 percent of men. Similarly, 26 percent of women have emergency savings compared to 37 percent of men.

**Figure 24. Gender and Financial Capability Among Native Americans**



Source: 2015 National Financial Capability Study (State-by-State Survey)

Financial capability within the AIAN community also varies by age group, although the differences are not as clear as they are for gender (Figure 25). In particular, financial literacy levels are low for the 18-to-34 year-old group, and this group is more likely to use alternative financial services. For example, only 22 percent of 18 to 34 year olds are considered highly financially literate, meaning they can answer four or five of the five financial literacy questions correctly; this compares to 32 percent for 35 to 54 year olds and 28 percent for those 55 and over. And 46 percent use alternative financial services compared to 22 percent for the 55 and over group. On the plus side, nearly 4 in 10 of the 55 and over age group has emergency savings, and they are less likely to be financially fragile relative to the younger age groups.

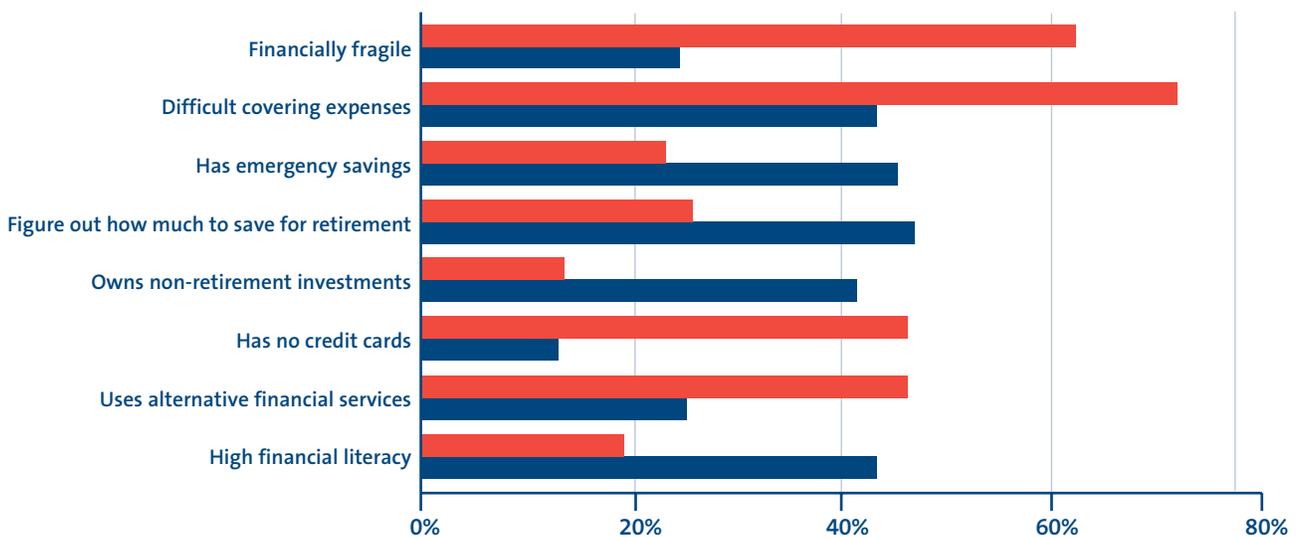
Figure 25. Age and Financial Capability among Native Americans

Financial Capability Measures	Age		
	18-34	35-54	55+
Financially fragile	56%	51%	40%
Difficulty covering expenses	67%	66%	54%
Has emergency savings	29%	26%	39%
Tried to figure out how to save for retirement	26%	37%	40%
Owns non-retirement investments	25%	19%	25%
Has no credit cards	37%	38%	31%
Uses alternative financial services	46%	39%	22%
High financial literacy	22%	32%	28%

Source: 2015 National Financial Capability Study (State-by-State Survey)

Figure 26 shows the same financial capability measures broken down by household income. Perhaps not surprisingly, some of the starkest differences within the AIAN community are related to income. Strikingly, 63 percent of AIAN households with less than \$50,000 in household income are financially fragile compared to only 25 percent for households with \$50,000 or more in income. Credit card usage also varies sharply by income; 46 percent of lower-income households have no credit cards compared to 13 percent of higher-income households, which may also help explain the high use of alternative financial services among lower income households—43 percent for households with less than \$50,000 in income and 25 percent for households with \$50,000 or more in household income. Last, the percentage of higher-income respondents deemed highly financially literate is nearly double the percentage of lower-income respondents considered highly financially literate. Only 31 percent of AIAN households have an income of \$50,000 or more, yet these data suggest that these households are doing far better from a financial capability perspective than lower-income households.

Figure 26. Household Income and Financial Capability Among Native Americans



Source: 2015 National Financial Capability Study (State-by-State Survey)

## Discussion

This issue brief provides new data on the financial health and financial capability of AIAN people in the United States, and many of the findings corroborate previous research. Earlier research has documented high levels of financial distress for AIAN people—in fact, in some regions of the country, AIAN populations are by far the poorest.<sup>14</sup> AIAN women, especially those with dependent children, are more likely to experience high poverty rates than men.<sup>15</sup> Previous research suggests that AIAN people are less likely to have intergenerational role models and are less likely to be exposed to financial concepts, or economic socialization, due to higher levels of intergenerational poverty.<sup>16</sup> This research report supports these earlier findings and suggests that as a result, financial knowledge for many AIAN people is lower than the national average. In addition, AIAN respondents report lower levels of confidence in their financial knowledge and abilities. Previous research suggests that AIAN people are less likely to use formal financial products (such as checking and savings accounts, credit cards and taxable investment accounts) and more likely to use alternative financial services (such as pawn shops and payday loans), and this report corroborates these earlier findings.<sup>17</sup>

This brief presents some new findings, especially in regard to financial behaviors. The NFCS provides detailed data on a range of different financial actions and decisions, and the data suggest that AIAN respondents are on average less likely to have an emergency savings fund, plan for retirement or save for their childrens' educational expenses. Yet there is some good news too—AIAN respondents are likely to demonstrate strong social networks to help make ends meet (e.g., are likely to report receiving money from family members outside their household), more likely to have a household budget and are likely to take advantage of financial education classes when they are offered. An increasing number of financial capability programs have been introduced over the past 15 years that are specifically designed to reach the AIAN community.<sup>18</sup> As the field of Native financial education continues to grow in size and effectiveness, the financial capability of the AIAN population may improve as well.

The data presented in this report cannot shed light on some questions related to financial management in AIAN communities. In many AIAN communities (although not all), non-western methods of savings and financial management have been documented, and these culturally specific forms of resource management are not discussed in this report.<sup>19</sup> In addition, there is a need for more information about access to banks and financial institutions in rural areas and AIAN communities. Many AIAN people live in remote, rural locations with limited access to financial services, and this may contribute to lower use of formal financial products.<sup>20</sup> Future research should explore data related to financial inclusion, or access to financial products and services, in order to better understand the relationship between financial behavior and the opportunities and resources available to AIAN people.

Financial capability includes both the ability to act (knowledge, skills, confidence and motivation) and the opportunity to act (through access to quality financial products and services). Previous research suggests that low-income households are more likely to face barriers to financial capability, including lower exposure to economic socialization and quality financial products.<sup>21</sup> This study provided information about lower levels of economic socialization (AIAN respondents are less likely to learn about money from parents and guardians) and the predictive relationship between poverty and low levels of financial capability (lower-income AIAN respondents have lower levels of financial capability). Native nations continue to experience economic growth and per capita incomes continue to increase for AIAN people,<sup>22</sup> so over time, and with effective financial education programs, it is likely the financial capability of AIAN people will increase as well.

## Conclusion

This issue brief used survey data from the 2015 FINRA Investor Education Foundation National Financial Capability Study to examine financial capability by race, with a focus on AIAN people. The data suggest that AIAN respondents on average demonstrate higher levels of financial distress and lower levels of financial capability. This issue brief demonstrates that AIAN people lag whites and Asian-Americans on many measures of financial capability but are on par with African-Americans and Hispanics. Although AIAN respondents are, on average, more likely to have trouble making ends meet, there are different experiences within the AIAN community. Higher-income AIAN respondents display much higher levels of financial capability than lower-income AIAN respondents, as do men and older AIAN respondents, but to a lesser degree. As Native nations continue to experience economic growth, and per capita incomes continue to increase for AIAN people, financial capability may improve as well. However, the findings in this brief suggest there is still much work to be done to help increase the financial capability of AIAN peoples and provide opportunities for financial education and financial inclusion.

## About the Data

### *Sampling and Weights*

This study uses data from the State-by-State Survey of the 2015 National Financial Capability Study (NFCS). The NFCS was funded by the FINRA Investor Education Foundation and conducted by Applied Research and Consulting and fielded from June 2015 through October 2015. The study used a sample of 27,564 adults ages 18 and older (approximately 500 per state plus the District of Columbia with oversamples in four large states, for a total of 1,000 respondents each in California, Illinois, New York, and Texas). The sample was obtained from Research Now, SSI (Survey Sampling International), EMI Online Research Solutions and ResearchNow via proprietary online panels of individuals who have agreed to participate in the panel and who are compensated for completing surveys. Nonprobability quota sampling was used to obtain the sample. The data is representative of the U.S. adult population (ages 18 and up) on age by gender, ethnicity, education and census division when weighted. Data from the U.S. Census Bureau's American Community Survey were used to construct the weights.

All statistics in this report are weighted, but the sample sizes are unweighted. As in all survey research, there are possible sources of error, such as coverage, nonresponse and measurement error that could affect the results. More information about the National Financial Capability Study—including the questionnaire and detailed methodology documents—can be found at [www.USFinancialCapability.org](http://www.USFinancialCapability.org).

### *Measuring Racial and Ethnic Identity*

The survey includes a question asking participants “Which of the following best describes your race or ethnicity? Select all that apply.” Respondents were given the following responses: White or Caucasian, Black or African-American, Hispanic or Latino/a, Asian-American, Native Hawaiian or other Pacific Islander, American Indian or Alaska Native and Other. For this analysis, respondents who selected “American Indian or Alaska Native” alone or in combination with another race were coded as American Indian or Alaska Native; respondents who chose “Hispanic” alone or in combination with any other race (except American Indian or Alaska Native) were coded as Hispanic; respondents who chose “White or Caucasian” were coded as white; respondents who chose “Black or African-American” were coded as African-American; respondents who chose Asian-American and/or “Native Hawaiian or other Pacific Islander” were coded as Asian-American; respondents who chose two or more ethnicities but did not chose Hispanic or American Indian or Alaska Native or who chose “Other” were coded as Other and excluded from this analysis.

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## FINRA Investor Education Foundation

The FINRA Investor Education Foundation, established in 2004 by the Financial Industry Regulatory Authority (FINRA), supports innovative research and educational projects that give underserved Americans the knowledge, skills, and tools necessary for financial success throughout life. For details about grant programs and other FINRA Foundation initiatives, visit [www.finrafoundation.org](http://www.finrafoundation.org).

## First Nations Development Institute

First Nations Development Institute is a national 501(c)(3) organization with a mission to strengthen American Indian economies to support healthy Native communities. We invest in and create innovative institutions and models that strengthen asset control and support economic development for American Indian people and their communities. Through a three-pronged strategy of Educating Grassroots Practitioners, Advocating For Systemic Change and Capitalizing Indian Communities, First Nations Development Institute is working to restore Native American control and culturally-compatible stewardship of the assets they own – be they land, human potential, cultural heritage, or natural resources – and to establish new assets for ensuring the long-term vitality of Native communities. For more information, visit [www.firstnations.org](http://www.firstnations.org).

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