

# **Education and Financial Well Being for Native Americans**

## **Research Brief**

Final

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## **Executive Summary**

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The Consumer Financial Protection Bureau (CFPB) defines financial well-being (FWB) as “having financial security and financial freedom of choice, in the present and in the future.” This study is the first to characterize FWB among American Indian and Alaska Native (referred to as AI/AN or Native individuals) individuals in the U.S., examining both the overall average level as well as the distribution. It further explores the relationship between FWB, education and financial capability.

Data for this study come from the nationally representative Understanding America Survey (UAS), which contains an oversample of AI/AN individuals. Regression analysis controlling for demographic characteristics (age, gender, and immigrant status) provides the associations between education, financial capability, and FWB for various racial and ethnic groups.

The study contains the following findings:

- Although higher levels of education are associated with higher financial well-being, the additional financial well-being associated with college is lower for Native individuals than for other major racial or ethnic groups.
- Significant gaps in FWB by education level between Native and non-Native individuals remain even after controlling for income.
- Although financial literacy and numeracy are associated with higher FWB, this does not explain the lower FWB of AI/AN individuals across education groups.

The findings imply that further investigation of barriers to asset accumulation may therefore be key to raising FWB for the AI/AN population.

### **1. Background**

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To date, there is no research examining the FWB of American Indian and Alaska Native households, in spite of previous research finding high levels of financial fragility and distress among this population.<sup>1</sup> This brief begins by documenting levels of FWB and then examines the associations between education, financial capability, and FWB for AI/AN and non-AI/AN groups in the US.

One potential way to increase FWB is through education—through higher levels of education generally or through higher levels of financial literacy specifically. Education is likely to affect FWB through several channels. First, it may increase an individual’s earnings, relieving financial stress. Higher earnings are also likely to lead to greater asset accumulation. Second, education may affect financial skills, knowledge, or capabilities, thereby increasing FWB. Third, education entails costs which may lead to higher debt levels at younger ages if individuals take on student loans. This may decrease asset accumulation and subsequent FWB. Finally,

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<sup>1</sup> See Dewees, S., & Mottola, G. (2017). Race and financial capability in America: Understanding the Native American experience. Retrieved from the FINRA Investor Education Foundation, National Financial Capability Study website: <http://www.usfinancialcapability.org/downloads/Native-American-Experience-Fin-Cap.pdf>

education is likely to have additional effects on FWB through other indirect channels. It is also the case that the association between education and FWB may reflect non-causal factors. For example, more educated individuals tend to come from families with greater income and wealth. If these families provide more resources during times of financial stress, FWB may be higher for better educated individuals due to the effects of family support in addition to any causal effects of the education itself.

The role of education in FWB may be especially salient for Native individuals. The percentage of Native individuals enrolled in college has risen steadily over the past several decades, increasing faster than in the U.S. as a whole, but levels of higher education still remain lower for AI/AN 18-24 year-olds than for all other major racial or ethnic groups.<sup>2</sup> In a study for the Social Security Administration, Murphy, Gourd and Begay (2014) report that AI/AN respondents had the lowest scores on financial literacy assessment,<sup>3</sup> and Dewees and Mottola (2017) report that AI/AN respondents report the least confidence in financial decision making.<sup>4</sup> Although Collins and Urban (2018) find that being banked and financial literacy in general are not predictive of FWB, whether this holds true for Native individuals has not been studied.<sup>5</sup>

This study addresses the following research questions:

- Q1. How does the distribution of financial well-being for AI/AN individuals compare to that of other non-Native groups in the United States?
- Q2. Does educational attainment have a distinct relationship with FWB for AI/AN individuals relative to other major racial and ethnic groups in the U.S.?
- Q3. Do financial capability or numeracy have distinct relationships with FWB for AI/AN individuals relative to other major racial and ethnic groups in the U.S.?

## **2. About the Study**

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This study relies on multivariate regression analysis to examine the relationships between race and ethnicity, demographic characteristics (age, gender, and immigrant status), education, financial capability and numeracy, income and net household assets, and FWB. These results do not indicate causal effects—for example, they do not reveal what level of FWB individuals would have if they were randomly assigned to receive an extra year of education—but they do indicate the strength of the associations among various factors across groups.

Data for this study come from the nationally representative Understanding America Survey (UAS). This is an internet based panel survey of individuals who provided answers to questions about FWB, demographic information, household income and household net assets over the

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<sup>2</sup> Author calculations from the American Community Survey.

<sup>3</sup> Murphy, J., Gourd, A., & Begay, F. (2014). Financial literacy among American Indians and Alaska Natives. Washington, DC: Office of Retirement and Disability Policy at the Social Security Administration.

<sup>4</sup> Dewees, S., & Mottola, G. (2017).

<sup>5</sup> Collins, J. M & Urban, C. (2018) Understanding Financial Well-being Over the Life Course: An exploration of measures. Working paper. Note that the measure of financial literacy in their study differs somewhat from the measure of financial capability used in this study.

course of 2015.<sup>6</sup> Because AI/AN individuals represent a small proportion of U.S. households (roughly 2 percent), the UAS includes a special oversample of zip-codes with a high proportion of AI/AN households and adds AI/AN respondents from this oversample. This results in a total of 346 individuals who report AI/AN ancestry and 6,499 non-AI/AN individuals.

The key measure of FWB is the 10 item CFPB Financial Well-Being Scale, collected as part of the UAS in February 2015. The financial capability measure is the metric developed for the RAND American Life Panel and is also the same as the measure used in the National Financial Capability Study. This was collected as part of the UAS in May 2014. The financial capability measure includes more than basic financial literacy questions and has been found to reflect financial capability as well as financial knowledge and literacy. Asset and income data come from the April 2015 UAS.

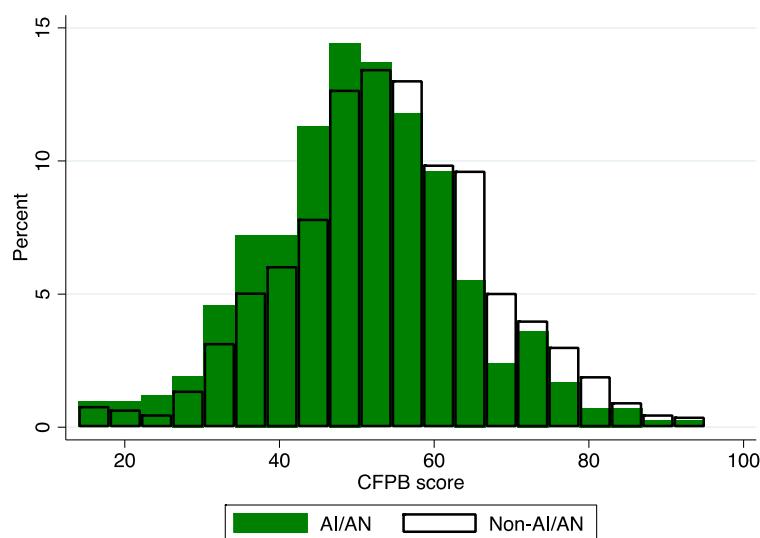
### **3. Findings**

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#### ***3.1. AI/AN individuals are more likely to report low FWB than non AI/AN individuals***

The distribution of FWB scores before accounting for any differences in characteristics is shown in the figure below. It indicates that 51 percent of AI/AN individuals have scores below 50, a level below which the CFPB defines a household as “Struggling.” In contrast, 41 percent of non-AI/AN households fall below this threshold. Education alone does not account for these differences. After controlling for education, a quadratic in age, whether or not an individual is male, whether they were born in the US, and their state of residence, FWB is 3.2 points lower on average among AI/AN individuals. This difference is statistically significant at the 1 percent level.

**Figure 3: Distribution of Scores for AI/AN and non-AI/AN**

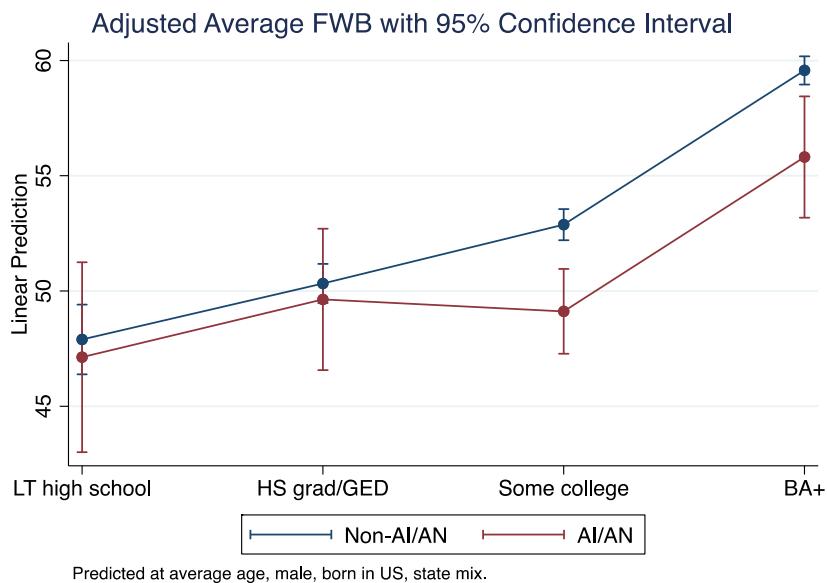


<sup>6</sup> Net assets are values of assets if they were sold and after discharging any debts outstanding—for example, the value of a house if it were sold and the remaining mortgage balance was paid off.

**3.2.** *Higher levels of education are associated with higher FWB. However, the additional financial well-being associated with college is lower for AI/AN individuals than for other groups.*

The following graph illustrates this finding, based on a regression analysis that controls for age, whether or not a person is male, born in the United States, and what state they lived in. The figure shows average FWB for AI/AN and non-AI/AN individuals after dividing individuals into groups based on how much education they had completed. The bars represent the 95 percent confidence intervals—if the points lie outside the bars, the averages are statistically different. The graph shows that FWB rises with education—the lines slope up. Furthermore, the FWB for AI/AN and non AI/AN individuals are statistically similar among those with less than a high school degree and those with a GED or high school diploma. However, AI/AN individuals with some college do not have FWB that is higher than those with a high school degree. Instead, AI/AN individuals with some college or with a BA are significantly lower than non-AI/AN individuals.

**Figure 3: Predicted FWB Score by Education Level**



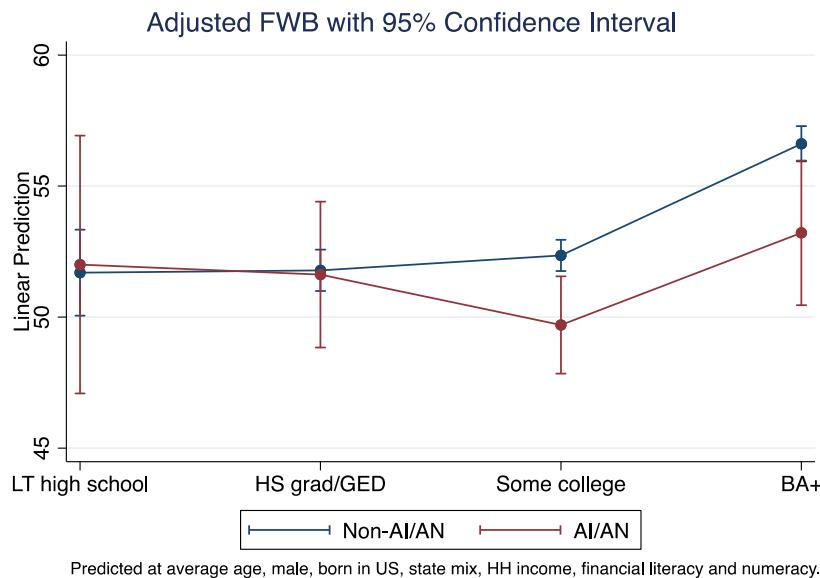
**3.3.** *This gap is persists even after accounting for income. Although financial literacy and numeracy are associated with higher FWB, this does not explain the lower FWB of AI/AN individuals across education groups.*

What if we account for income, financial capability or numeracy? The following graph resembles the one above, but this time also includes these additional controls. It shows part of the reason those with a high school degree or some college have higher FWB is that their incomes, financial literacy, and numeracy are higher. Accounting for these factors results in similar average well-being across these educational groups—that is, the line is flat across this

range. College graduates continue to have higher FWB. For AI/AN individuals, there remains a significant gap by education for individuals with some college or a BA.

This implies that part of the benefits of education for non-AI/AN individuals stem from factors beyond income and financial capability. Examples of such factors may include better health for individuals with a BA or greater financial support from family members that are more common among non-AI/AN individuals than among AI/AN individuals. Alternatively, if AI/AN individuals incur greater costs in acquiring higher education than non-AI/AN individuals, this would also be consistent with the empirical pattern shown in the figure. These findings cannot determine the exact explanation for this pattern, but they do point to important future areas to investigate.

**Figure 3: Predicted FWB Score by Education Level controlled by Income, Financial Literacy and Numeracy.**



#### 4. Conclusion

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Financial well-being varies considerably across the United States. This study focuses on the well-being of American Indian and Alaska Natives. In general, this population has lower FWB than other groups in the United States. Particularly troubling, the association between college education and FWB is weaker for AI/AN individuals than for non AI/AN individuals. This does not appear to be driven by income or financial capability. Examining barriers to asset accumulation for specific groups and the effects of education policies in mitigating those barriers is likely to be a fruitful avenue for both policymakers and future researchers.