



THE FINANCIAL LITERACY OF

# Native American Youth



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COALITION



# About the Native Financial Education Coalition

The Native Financial Education Coalition (NFEC) is a group of local, regional and national organizations and government agencies working together to achieve its common goal of promoting financial education in Native communities. Started by the U.S. Department of the Treasury in 2000, the now independent NFEC seeks to exchange information, forge partnerships, development and implement strategies to institutionalize outreach and training, and identify gaps in information about the financial education needs of American Indians, Alaska Native and Native Hawaiians. The NFEC membership is open to any organization working on or interested in improving personal financial skills in Native communities. First Nations Oweesta Corporation (Oweesta) serves as the fiscal agent and employs a part-time coordinator. Visit [www.nfec.info](http://www.nfec.info) for more information.



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# Summary

Tests of high school seniors conducted by the Jump\$tart Coalition for Personal Financial Literacy (Jump\$tart) indicate that Native American youth are less prepared to make informed financial choices than most of their peers. Comparing the five Jump\$tart surveys that have been conducted since 1997, it is clear that while Native students are not always at the back of the pack, their financial literacy scores are consistently among the worst in the overall population of high school seniors. In 2006, Native students' average financial literacy score was only 84 percent of the overall national average; nearly 87 percent of Native students received a "failing" score, compared to 62 percent of all students.

Measured as a percent of all students' scores, Native Americans have relatively large disadvantages in the income and in money management domains, where they score, respectively, 78.4 percent and 83.6 percent as high as the national average.

Statistically significant correlations suggest several factors that may influence student performance.

- *Parental education:* Native students' financial knowledge tends to be higher when their parents have higher levels of education.
- *Ambitious plans and expectations:* Native students' scores are higher when their plans for or expectations about their futures are ambitious. In particular, Native students' scores are higher when they plan to attend a 4-year college or university, when they expect to earn at least \$40,000 or more annually, and when they anticipate entering a professional career.

Today's youth are literally the economic engines of tomorrow. But they are less able to fulfill their potential if they cannot use resources wisely. This is especially true in Native communities—whether those communities are struggling to extract themselves from dependency or learning to manage and preserve new wealth—because financial resources themselves have been scarce in Native America, and there is a greater need to use those resources for both community and individual wealth building.

Jump\$tart and the members of the Native Financial Education Coalition (NFEC) are working to close the gap between Native youth and their peers by advocating for improved financial education opportunities in Native communities. For example, First Nations Oweesta Corporation, which facilitates the NFEC, and Merrill Lynch, which sponsored both the Jump\$tart survey and this report, are seeking to build the capacity of Native institutions to offer culturally appropriate financial education curricula.



# Introduction

Since 1997, the Jump\$tart Coalition for Personal Financial Literacy (Jump\$tart) has been assessing the financial literacy of young adults in their last year of high school. The results have been troubling—few high school seniors are capable of passing a multiple-choice examination that measures their ability to make informed financial choices on key money management, credit, savings, tax, and insurance issues.

The results for Native students raise even more concern. On average, as compared to other racial and ethnic groups, Native students score at or near the bottom on every metric. This analysis takes a close look at the financial literacy of Native American youth and some of the determinants of their poor scores—and points to the need for increased financial education across the Native population.

## The Jump\$tart Methodology

Jump\$tart survey results are generated through a relatively random sample of U.S. public high school seniors. Because a true random sample is prohibitively costly, care is taken in the survey process to control for geographic and enrollment size differences among schools and to adjust for the impact of over-sampling in states with active financial education coalitions.

Survey methodology details can be found in core survey documents,<sup>1</sup> but several points deserve mention here, since they lead to a better understanding of the results for Native students. First, the number of Native students in the sample is small—of the 5,775 12th grade public high school students who took the Jump\$tart survey in 2006, 86 (1.5 percent) identified themselves as Native American, and of the 4,074 respondents in 2004, 61 (1.4 percent) did so. While it is difficult to say anything about trends over time with this number of observations, it is possible to make some comparisons between ethnic and racial groups and, especially by pooling the data, to test some within-group correlations.

Second, the schools included in the sample are not necessarily near Indian lands, which means that the Native students' results should be viewed as representative of the broad American Indian and Alaska Native population in the United States—on-reservation and off-reservation, urban and rural, tribally enrolled and unenrolled—rather than as specifically representative of the Indian Country population. If future Jump\$tart surveys target schools with larger Alaska Native, American Indian, and Native Hawaiian populations, it may later be possible to say more about some of these differences among the subpopulations of Native students.

<sup>1</sup> See, especially, Lewis Mandell, *Financial Literacy: Improving Education* (Washington, DC: Jump\$tart Coalition for Personal Financial Literacy, 2006) and Lewis Mandell, *Financial Literacy: Are We Improving?* (Washington, DC: Jump\$tart Coalition for Personal Financial Literacy, 2004).

# Natives Lag in Financial Literacy

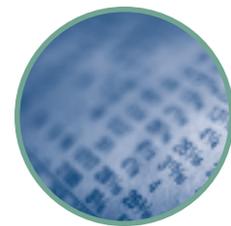
Table 1 summarizes financial literacy scores from the five national surveys of high school seniors conducted since 1997. While it has been rare for any ethnic or racial group to achieve an average score at the “pass” level or above, Native students’ scores are particularly low. In 2006, the Native students’ average was only 84 percent of the overall national average. Nearly 87 percent of Native students received a “failing” score (less than 60 percent correct), compared to 62 percent of all students. Because the survey omits students who drop out before their senior year, it probably overstates the financial literacy of Native American youth, who are disproportionately represented among those not completing high school.<sup>2</sup>

**Table 1. Overall Financial Literacy Scores by Race, 1997-2006**

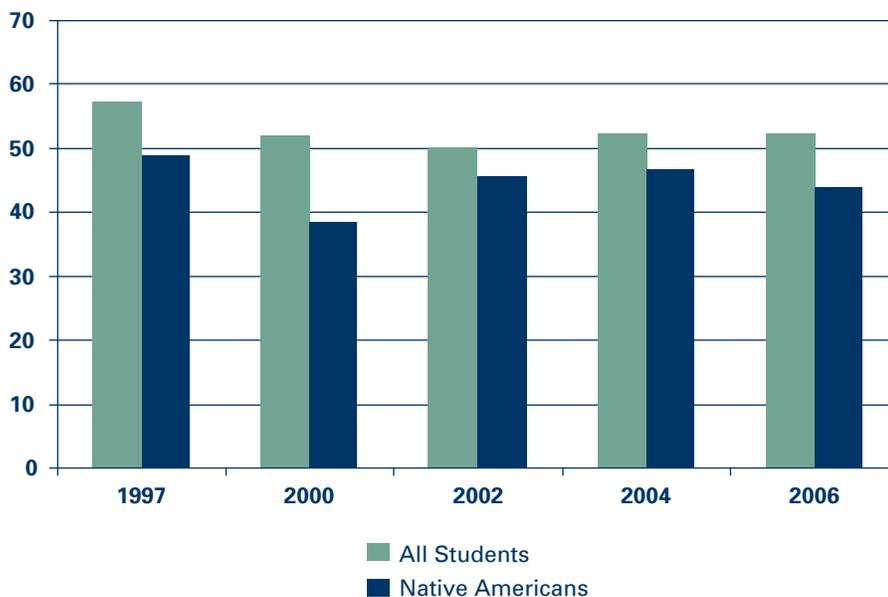
	Mean Scores					2006 Percent C or Better	2006 Percent “Failing”
	1997	2000	2002	2004	2006		
<b>All Students</b>	57.3	51.9	50.2	52.3	52.4	6.9%	62.0%
<b>By Race</b>							
<b>White</b>	60.9	54.5	53.7	55.5	55.0	8.9%	54.6%
<b>African American</b>	50.4	47.0	42.1	44.0	44.7	1.6%	79.8%
<b>Hispanic American</b>	55.1	45.3	44.8	48.3	46.8	2.0%	79.6%
<b>Asian American</b>	55.8	53.5	50.6	48.3	49.4	2.2%	71.9%
<b>Native American</b>	48.8	38.6	45.5	46.7	44.1	5.1%	86.6%
<b>Native Scores as % of Mean</b>	85.2	74.4	90.6	89.3	84.2		
<b>Gap (in percentage points)</b>	8.5	13.3	4.7	5.6	8.3		

Figures 1a and 1b make the point graphically. While they are not always at the back of the pack, Native students’ financial literacy scores are consistently among the worst in the overall population of high school seniors, even as compared to other racial and ethnic groups.

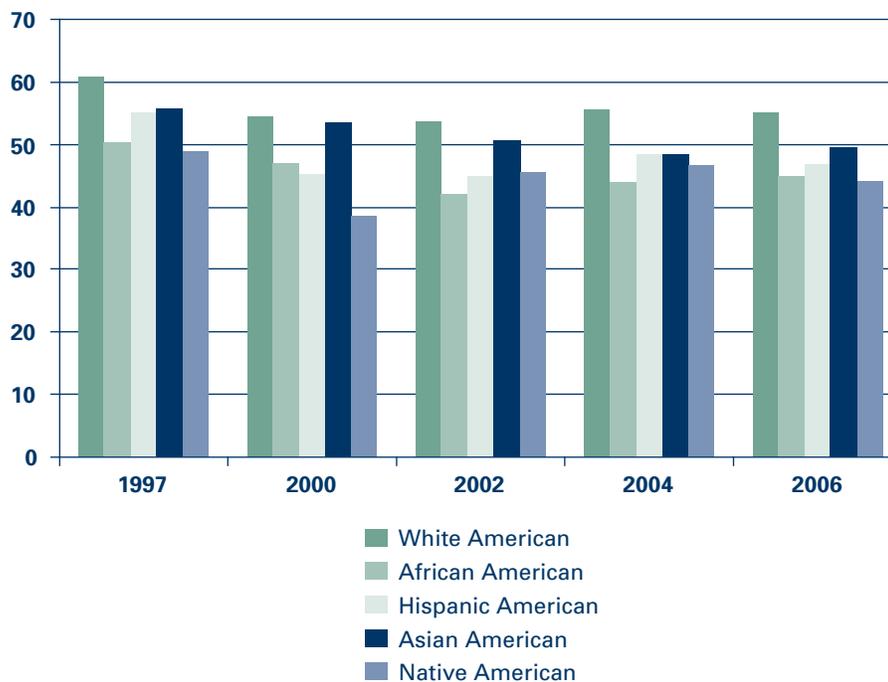
<sup>2</sup> Gary Orfield, Daniel Losen, Johanna Wald, and Christopher B. Swanson, *Losing Our Future: How Minority Youth are Being Left Behind by the Graduation Rate Crisis* (Cambridge, MA: The Civil Rights Project at Harvard University, 2004).



**Figure 1a. Overall Financial Literacy Scores—Native High School Seniors Compared to All Seniors, 1997-2006**



**Figure 1b. Overall Financial Literacy Scores by Race, 1997-2006**



# Breaking Down the Scores—

## Native Students' Performance across Five Dimensions of Financial Literacy

Table 2 divides the survey questions into the five financial skill areas tested by the Jump\$Start survey—income, money management, savings, spending, and credit.<sup>3</sup> These component scores offer a picture of Native American students' relative strengths and weaknesses. Specifically,

- The income score assesses students' understanding of income sources; the effect of education, skills, and career choices on income; and the way that taxes, transfer payments, and benefits affect disposable income.
- The money management score assesses students' ability to analyze financial choices and use financial tools such as budgets and insurance.
- The saving score assesses students' understanding of the benefits of saving and the ways to select and implement good savings and investment plans.
- The spending score assesses students' ability to weigh the costs and benefits of various spending alternatives.
- The credit score assesses students' ability to make effective choices among payment and credit options and to understand the importance of establishing and maintaining a good credit record.



**Table 2. Subject Area Financial Literacy Scores by Race, 2006**

	Income Score	Money Management Score	Saving Score	Spending Score	Credit Score
<b>All Students</b>	59.2%	46.4%	42.6%	56.9%	51.8%
<b>By Race</b>					
<b>White</b>	62.5	48.8	44.4	59.7	54.7
<b>African American</b>	49.9	37.7	36.3	50.0	44.6
<b>Hispanic American</b>	51.2	42.6	39.4	50.6	45.2
<b>Asian American</b>	58.1	43.8	42.5	50.7	45.6
<b>Native American</b>	46.4	38.8	38.3	48.7	44.2
<b>Native Scores as % of Mean</b>	78.4%	83.6%	89.9%	85.6%	85.3%

<sup>3</sup> In 2006, the Jump\$Start Coalition began to break out both spending and credit scores, which used to be reported together. Increasingly, these ideas represent different domains of knowledge, especially with regard to why credit can be important and why one should establish and maintain a good credit record.

Like other American youth, Native youth score highest in the spending and income categories and lowest in the saving, money management, and credit categories. However, measured as a percent of all students' scores (see the last row of Table 2), Native students have relatively large disadvantages in the income and in money management domains, where they score, respectively, 78.4 percent and 83.6 percent as high as the national average. Native youth lag least in saving, scoring 89.9 percent of the national average in 2006, but on this topic *all* groups score poorly. These results mirror the 2004 results, although the gaps appear to have widened.<sup>4</sup>

## *Thinking through the Problem:* Correlates of Native Students' Financial Literacy Scores

The relatively low number of American Indian and Alaska Native high school seniors surveyed in any one year makes it difficult to draw conclusions about the educational, financial, and social factors that might contribute to Native students' poor results. However, by pooling the data from 2004 and 2006, it is possible to test more cases and draw several conclusions about the factors correlated with student performance.<sup>5</sup> These are listed in Table 3 below, although they are by no means the *only* correlates; more might be uncovered with a larger Native student sample size.<sup>6</sup>

**Table 3. Correlates of Native Students' Financial Literacy Scores, 2004 & 2006**

Variable	Average Score Increase (points)	Significance Level (Wald test)
<b>Parents finished high school or more</b> (versus not)	9	95.0
<b>Plan to attend 4-year college</b> (versus plans do not include 4-year college)	10*	99.0
<b>Student expects to make at least \$40,000</b> (versus an expectation of less or not knowing)	11*	99.0
<b>Student plans a professional career</b> (versus manual work, skilled trade, service sector, or not knowing)	9*	90.0

*\*Score differences are calculated including all "don't know" answers, under the assumption that students who "don't know" are different from students who have ambitious plans. If "don't know" answers are excluded, results change only slightly.*

<sup>4</sup> In 2004, Native students' income, money management, and savings scores were, respectively, 83.0 percent, 84.1 percent, and 97.1 percent of the national averages.

<sup>5</sup> Pooling increases the overall Native student sample size to 147. To adjust for the different overall population of high school seniors in 2004 and 2006, this analysis uses estimates of the overall number of 12th graders in 2004 and 2006 to weight the data (giving more weight to 2006, the larger class).

<sup>6</sup> This fact is underscored in column 2 of Table 3: only large score differences meet significance tests in small samples.

The first result shown in the table is that Native students' financial knowledge tends to be higher when their parents have higher levels of education. The critical level of parental education appears to be a high school degree: according to available data, the only statistically distinguishable scores are those of students whose parents lack a high school degree. On average, students whose parents have at least a high school degree score 9 points higher than students whose parents do not have this credential.

Native students' scores are also higher when their own plans for or expectations about their futures are ambitious. On average, for example, Native high school seniors who plan to enroll in four-year colleges and universities score 10 points higher than students without such plans. Students who expect to earn at least \$40,000 annually earn average scores that are 11 points higher than students without this expectation. There is also a noticeable but weaker correlation between student career plans and financial literacy scores: students who anticipate entering a professional career earn scores that are, on average, 9 points higher than students who anticipate entering a manual work job, a skilled trade, or a service job. These results may indicate that students who are stronger academically are also stronger in terms of their financial literacy skills.

Yet the results may also reflect family-based expectations and motivations. In the *non-Native* population, the connection is linear: there is a strong correlation between parental income and student financial literacy. A move from each income level to the next in Table 4, column 2 yields a statistically significant difference in financial literacy scores. As co-author Mandell has noted elsewhere, students from higher-income families are starting to get serious about financial education: "The turnaround in financial literacy continues to be led by the more affluent segments of the population."<sup>7</sup>

But this direct relationship is *not* mirrored in the Native American population: there is no correlation between parental income and student financial literacy scores, nor is there a correlation between parents' income and students' college plans, career plans, and income expectations. In other words, Native students' financial literacy results are not a reflection of the expected life course of children from higher income families. On the one hand, there are hopeful aspects of this result. The positive correlations between Native students' ambitions and their financial literacy skills may reflect the value that certain Native families—regardless of income level or economic sector—are placing on education, work, and sound financial

<sup>7</sup> Mandell 2006, op cit., p. 10.

management skills as a means of securing and improving their children’s livelihoods. On the other hand, the lack of correlation between parental income and student scores at the top end of the income distribution is troubling: higher income Native families are not doing as good a job as their non-Native counterparts at inculcating the values of good financial stewardship in their children. At least some of the problem may be due to parents’ own inexperience: in Native nations where tribal citizens are realizing higher levels of income for the first time, newly affluent parents have not themselves been trained to manage wealth, so it difficult for them to pass money management skills on to their children.

**Table 4. Parents’ Income and Students’ Financial Literacy Scores, 2004 & 2006**

Student estimate of parents’ total income	Non-Natives Students’ Average JumpStart Survey Score	Native Students’ Average JumpStart Survey Score
<\$20,000	48.7	44.6
\$20,000-\$39,999	51.1	40.3
\$40,000-\$79,999	53.9	44.3
>\$80,000	55.7	44.7

In sum, the survey points to the critical role that parents and schools might play in improving the financial knowledge of American youth—and in influencing the youth attitudes that lead to sound financial management. The second part of this statement is critical, since the means for financial knowledge gains are more subtle than simply requiring classes in financial education. Among Native students (and among non-Native students as well), classes in finance and economics are not paying off in increased financial literacy. Rather, it appears that families and schools must help students imagine their future success and link financial education and knowledge to those goals. Taking the foregoing point into consideration, adult financial education may be an important part of this process.



# Improving Native Students' Financial Knowledge



Today's youth are literally the economic engines of tomorrow. But they are less able to fulfill their potential if they cannot use resources wisely. This is especially true in Native communities—whether those communities are struggling to extract themselves from dependency or learning to manage and preserve new wealth—because financial resources themselves have been scarce in Native America, and there is a greater need to use those resources for both community and individual wealth building. Financial knowledge expertise marshals human and financial capital for a better future—while financial knowledge gaps do the opposite. If a Native community with a low level of financial resources also has a low level of financial literacy, its overall financial well-being and economic advancement will be even lower than implied by its resources alone. And even in Native communities with a high level of financial resources, financial knowledge gaps can make it much harder to secure and preserve those gains.

Unfortunately, financial knowledge levels among Native youth *are* low, and that is what makes the work of the Jump\$tart Coalition, Native Financial Education Coalition, and their partners so critical. They encourage the development of programs to help Native youth acquire the knowledge and skills needed to manage their personal finances effectively—which, in turn, leads to the better management of community and tribal resources, more skillful Native entrepreneurs, and more informed leaders.

In service to Native America specifically, First Nations Oweesta Corporation (Oweesta), which facilitates the NFEC, and Merrill Lynch, which sponsored both the Jump\$tart survey and this report, are seeking to promote culturally appropriate financial education and mentoring for Native youth in classroom, community, and family settings. Given the importance of both student and family opportunities and attitudes to Native students' financial education scores, this mixed outreach and education strategy is designed to have the greatest impact on student financial literacy.

Oweesta offers training and technical assistance programs and services to expand the capacity of local financial institutions—especially Native Community Development Financial Institutions—to develop financial education programs. Oweesta also offers financial education instructor certification courses for *Building Native Communities: Financial Skills for Families*, a culturally focused financial skills curriculum for Native people developed by First Nations Development Institute and the Fannie Mae Foundation.<sup>8</sup>

As one of the world's leading financial services firms, Merrill Lynch places a high priority on investment planning and financial literacy and is committed to providing relevant education at both the community and family level. For example, Merrill Lynch has developed *Investing Pays Off*<sup>®</sup>, a multi-level curriculum for children in kindergarten through twelfth grade which teaches financial literacy and leadership skills. Merrill Lynch offers the curriculum in Native communities across the country often times alongside *Building Native Communities: Financial Skills for Families* in partnership with Oweesta. Merrill Lynch believes that nurturing financial skills at home fosters economic development in the community.

To provide practical resources individuals and communities can use to boost financial literacy, Jump\$start manages an on-line clearinghouse of financial education curricula targeting youth at [www.jumpstart.org](http://www.jumpstart.org), and the NFEC hosts a website with financial education tools and resources targeted to Native youth and adults at [www.nfec.info](http://www.nfec.info).

<sup>8</sup> The *Building Native Communities* series also includes guidebooks on the Earned Income Tax Credit, Individual Development Accounts and investor education. For more information on these publications and training opportunities, visit [www.oweesta.org](http://www.oweesta.org) or call Oweesta at 605-342-3770.

# For More Information

For more information on these and other efforts to close the financial literacy gap between Native youth and their peers, please feel free to contact:

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