Diversity in Financial Planning

Jim Pasztor, INSERT INSTITUTION[1]
Aman Sunder, INSERT INSTITUTION [2]
Rebecca Henderson, INSERT INSTITUTION [3]

Objective

This study intends to contribute to the discussion on the lack of racial and ethnic diversity in the financial planning profession. There are CFP® certificant-side and client-side factors that might contribute to the current lack of racial and ethnic diversity in financial planning, and these factors need to be analyzed and acknowledged before progress can be made on increasing diversity in the profession. This study discusses pitfalls to the diversity initiatives with the intention to contribute to those efforts.

Significance

Economic inequality is a barrier to achieving more diversity in the financial planning profession. Access to sound financial advice is readily available and affordable to high net worth individuals, but not to most of society, and the increasing inequality in income and wealth distribution seems to be moving more of the population away from, not toward, sound financial advice. The financial services industry has been struggling with the issue of ethnic and racial diversity for years (U.S. Government Accountability Office, 2017). GAO reported that the percentage of Blacks and Latinos in management in the financial services industry is well below levels found in the general population. Blacks and Latinos represent just 1.3 percent each of senior management, and a total of 7.6 percent (4.4 percent Black and 3.2 percent Latino) of first- and mid-level management (U.S. Government Accountability Office, 2017). A recent CFP Board Center for Financial Planning study found that Black and Latino CFP® professionals constitute less than 3.5 percent of the over 80,000 CFP® professionals in the United States (CFP Board Center for Financial Planning, 2018). This percentage of Black and Latino CFP® professionals is significantly less than the percentages of Blacks (13.3 percent) and Latinos (17.8 percent) in the general U.S. population (CFP Board Center for Financial Planning, 2018).

The CFP Board Initiative. The CFP Board Center for Financial Planning (2018) put forth a compelling case for increasing racial and ethnic diversity in the financial planning profession. The study employed both qualitative and quantitative research methods for an extensive and comprehensive analysis. CFP Board's research is based on focus group interviews and online surveys with CFP® professionals (Black, Latino, non-Black, and non-Latino), hiring firms, and clients with investable assets or income of $100,000 and higher. The study found the following barriers to diversity: (1) cultural norms and economic inequality caused lack of awareness about CFP® certification among Black and Latino populations of interest; (2) subjectivity and focusing on achieving an immediate return from new employees during the hiring processes of major firms constrained possible employment; (3) explicit and implicit client-biases; (4) disparity in agreement on root causes of underrepresentation of Blacks and Latino financial planners; (5) interestingly, despite these barriers and the fact that the Black and Latino CFP® professionals are more likely to distrust the profession, they are highly satisfied in their career choice, and (6) there is consensus among study participants on the need for initiatives to increase diversity and attract more Blacks and Latinos to the profession (CFP Board Center for Financial Planning, 2018). Based on its findings, the CFP Board's report extends a call for action that includes maintenance, continuation, and expansion of current initiatives by the CFP Board, and providing support for Black and Latino aspirants and professionals with mentoring, networking, education, exposure, development, and collaboration initiatives.

The Pitfalls. The CFP Board's report generally identifies factors hampering diversity in the financial planning profession and suggests initiatives to tackle the hurdles, but it does not provide details of the

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[1] Jim Pasztor (INSERT EMAIL), INSERT TITLE, INSERT DEPARTMENT
[2] Aman Sunder (INSERT EMAIL), INSERT TITLE, INSERT DEPARTMENT
[3] Rebecca Henderson (INSERT EMAIL), INSERT TITLE, INSERT DEPARTMENT

extent to which individual initiatives should be pushed and the measurement of nature and extent of the impact that we could expect from these initiatives. It is understandable that some of these factors and initiatives could be hard to measure. Therefore, this study takes a somewhat different approach to identify and address the factors.

Method

This study approaches the diversity problem from two sides: the CFP® certificant side and the client side. This study attempts to shed light on demographics of clientele including their income, net worth, and advisor-use preferences; redefine the diversity problem; identify the roadblocks to CFP® certification, and provide possible solutions to the diversity problem. The study uses the 2004 to 2016 waves of Survey of Consumer Finances dataset, student data from the College for Financial Planning, and information from the U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Government Accountability Office (GAO), and U.S. Department of Education for its analysis.

This study uses the cross-sections of Survey of Consumer Finances data (2004 to 2016) to analyze the relationship between advisor use and household demographics (especially race), using logistic regression with SCFCombo, an RII-procedure, to tackle the inherent heterogeneity in the data due to complex survey design (Center for Financial Security, 2015; Nielsen, 2015)

$$\text{LOGIT (Used Financial Advisor } [0,1]) = [\text{Demographics}]_i\, \beta 1 + [\text{Financials}]_i\, \beta 2 + \varepsilon_{it}.$$

Results

This study analyzes the diversity problem from the side of the clients and CFP® certificants.

Client-Side Analysis

Income and net-worth of clients. White households, in 2016, had a median net worth of $171,000, up 17 percent since 2013 (Bricker et al., 2017; Dettling, Hsu, Jacobs, Moore, & Thompson, 2017). In stark contrast, Black households had a median net worth of $17,600, up 29 percent since 2013, and Latino households $20,700, up 46 percent since 2013 (Bricker et al., 2017; Dettling et al., 2017). It is easy to notice that even the sharp increases of 29 percent for Blacks and an impressive 46 percent for Latinos do not put these households above 10 percent of the median net worth level of the White families. During the Great Recession of 2008, White, Black, and Latino homes had experienced a 30 percent dip in their net worth, but only the Black and Latino families faced a further decline of an additional 20 percent from 2010 to 2013, before the growth in their net worth kicked in after 2013 (Dettling et al., 2017). Figures 1, 2, and 3 compare the percentage of households in the United States in the years 2004, 2007, 2010, 2013, and 2016 with financial assets greater than $100,000, $500,000, and $1 million, respectively, using the waves of Survey of Consumer Finances. Of the total population, the percentage of families with financial assets over $100,000 has remained below 2 percent for Blacks, below 1 percent for Latinos, but approximately 25 percent for Whites from 2004 to 2016. The percentage of families with financial assets over $500,000 has remained below 0.3 percent for Blacks and Latinos, but 8 to 10 percent for Whites from 2004 to 2016. The percentage of families with financial assets over $1 million has remained below 0.1 percent for Blacks and Latinos, but 4 to 5 percent for Whites from 2004 to 2016.

Use of advisors by families. Table 1 (Results 1 to 6) presents logistic regression results with advisor use as the dependent variable. Results 1, 2, and 3 show the results of the use of advisors by the families for saving and investment decisions. Results 4, 5, and 6 present the results of the use of advisors by the families for borrowing decisions. Results 1 and 4 restrict the analysis to the families with financial assets of less than $100,000. Results 2 and 5 limit the investigation to the families with financial assets between $100,000 to $1 million. Results 3 and 6 restrict the analysis to the families with financial assets greater than $1 million. Result 3 shows that for the families with financial assets greater than $1 million, the non-

Whites were significantly less likely to have used an advisor for savings and investments decisions, ceteris paribus. Results 4 and 5 show that for the families with financial assets less than $1 million, the non-Whites were significantly less likely to have used an advisor for borrowing decisions, ceteris paribus.

CFP® Certificant-Side Analysis

Income and net worth of CFP® certificant aspirants. The employees of financial firms have a median compensation of $30 to $60 per hour ($60,000 to $124,000 per year), which is comparable to median income of White households and much higher than median incomes of Black and Latino families, presuming minimal income disparity based on race in the financial firms (Dettling et al., 2017; U.S. Bureau of Labor Statistics, 2017). As for the career-changers who are not from the financial services industry, the college degree puts them ahead in income from the rest of the population. The Survey of Trends in the Financial Planning Industry conducted by the College for Financial Planning reported that 93 percent of the 370 survey respondents (recent graduates from the CFP® education program at the College) had a bachelor's degree or higher and 32 percent had a master's degree (College for Financial Planning, 2016). Of the respondents, 41 percent had 20 or more years of experience in the financial industry (College for Financial Planning, 2016). Bricker et al., (2017) reported that in 2016 the families headed by college degree holders had 13 times more wealth and three times more income than the families headed by high school diploma holders. However, the wealth disparity haunts the Black and Latino households even when they get a bachelor's degree or higher. Among such well-educated families, the Black and Latino households had a median net worth of $68,000 and $78,000, respectively, in contrast to the White families, which had a median net worth of $397,000 (Dettling et al., 2017).

Demographics on campus. Among the households with bachelor's degree or higher, 39 percent are White, 23 percent are Black, and 17 percent are Latino (Dettling et al., 2017). Fifteen percent of Latinos and 22 percent of Blacks successfully attained an undergraduate degree or above in 2017 (US Census Bureau, 2017). The U.S. Department of Education has projected that the enrollment of U.S residents to degree-granting institutions in 2026 as compared to 2015 will show a 20 percent increase for Blacks, 26 percent increase for Latinos, 12 percent increase for Asians, and only a 1 percent increase for Whites (Hussar & Bailey, 2018). One of the requirements to earn CFP® certification is to have least earned a bachelor's degree.

Dynamics of middle-age career changers. The average age of students entering the CFP® education program at the College for Financial Planning is 42, and the College is currently responsible for educating 1 out of 3 CFP Board exam sitters in the United States. By the sheer volume of CFP® professionals produced at the College, this study presumes it to be representative of the institutions that provide an opportunity to working professionals to choose to shift to a CFP® professional-based career at an age and pace of their choice. Online education providers, such as the College, become a natural choice for the firms that wish to educate their employees. Company-affiliated education can take precedence at these institutions that are tailored to working professionals. For example, of the 4,784 students who enrolled in CFP® education courses in September 2017, 4,318 (90.3 percent) were affiliated with some organization.

Discussion and Conclusions

The CFP Board Center for Financial Planning (2018) suggested that an average increase in the income and wealth of the Black and Latino families presents an opportunity for the Black and Latino planners to serve them. Given that assets under management have primarily driven the financial planning profession, obtaining any advice with a low net worth is problematic. For the general population, it is difficult to have adequate resources to afford (or even consider) paying for financial advice, and CFP® certificants need a livable level of income from advising clients to survive in the profession.

The racial mix of the United States population does not have a direct relationship to CFP® certification because the financial planning profession is more closely aligned with the financial assets and net worth of various ethnic groups and not their representation in the general population. What is more relevant to why the number of Black and Latino financial planners in the profession is substantially lower than their representation in the general population is the total disparity between the median wealth of Blacks and

Latinos when compared to the median wealth of Whites. The much talked about growth in the net worth of Black and Latino families in the past few years comes after a significant fall between 2008 and 2013. In contrast, the median net worth of White families did not fall after 2010, overall. In other words, Latino and Black families had a recovery after 2013, not growth. Secondly, this also brings up the question as to the resiliency of Black and Latino households. If history repeats itself, then Latino and Black families are at more risk when the next economic downturn occurs, which makes paying for financial advice even more problematic and the need for societal safety net programs more critical.

The study also found that non-White households with lower financial assets were less likely than White families to seek advice for borrowing decisions. The comparison of relevant populations is even more disheartening. The number of ethnically diverse families with enough financial assets has remained at a level below 1 percent of the total population, a number so small that even a huge percentage increase will not make a considerable difference overall. The low representation of Black and Latino CFP® certificants (3.5 percent) compared with White certificants makes more sense when considering the level of financial assets of the various groups. Blacks and Latinos represent only 3 percent of those with financial assets of over $1 million, and only 3.6 percent of those who have $500,000 or more. The study also found that non-White households with financial assets of more than $1 million were less likely than White families to seek advice for investment and saving decisions. Given that many financial planning and investment management firms have minimum account sizes (often $1 million or more), the current representation of Black and Latino CFP® certificants appears to be aligned.

Redefining the diversity-in-CFP® certificants problem. The CFP Board Center for Financial Planning (2018) presents the diversity problem by comparing the racial mix of the United States population (13.3 percent Blacks and 17.8 percent Latinos) to the ethnic mix of the CFP® certificants (3.5 percent Black or Latino). However, the racial mix of the United States population does not have a direct relationship to the CFP® certification because the CFP Board requires the aspirant to be an undergraduate degree holder to qualify for the CFP® certification process. The steep rise in Black and Latino degree holders in the future presents an opportunity for the CFP Board and financial planning profession to increase talent with diversity (Hussar & Bailey, 2018).

Demographic drivers CFP® education. The CFP Board identifies the lack of awareness due to the socioeconomic disparity in the population as a primary driver of the problem. It is a matter of discussion and research to find other important factors, which can be done by examining age groups separately. The CFP Board relies on the enrollments, ethnic mix, graduation rates, and CFP Board exam pass rates of the degree-granting registered-program institutions for its younger CFP® certificants. Considering the campus diversity initiatives at the universities in the United States, one could hypothesize that the diversity problem is not driven by lack of diversity on campus overall. However, the enrollments, ethnic mix, graduation rates, and CFP Board exam pass rates of the degree-granting registered program institutions is a matter of investigation, which could impact diversity in CFP® certification. For example, lack of promotion of the financial planning profession on university campuses, lack of attractiveness of obtaining the CFP® certification, or simply low or disparate pass rates in the CFP® certification process among university students could be responsible. It is also worth noting that a significant portion of highly talented Black, Latino, and Asian degree holders are foreign born (non-residents) who require visa sponsorship for employment in the United States (Stoops, 2004). A push away from the financial planning profession and obtaining CFP® certification could also be due to a possible lack of willingness of the firms to sponsor visas for a talented and diverse pool of individuals. Working professionals usually choose self-paced online education programs for CFP® education. Collectively, the online education providers easily surpass the volume of CFP® certificant candidates coming from university campuses. By design, the relationship of the students and the institutions providing online CFP® education is double-blinded to the race and ethnicity of either party. The demographic information collected during enrollments is often purely voluntary and considered unnecessary. Such a design leads to a rather tricky situation for these institutions to take up diversity initiatives. A high percentage of firm-affiliated student population means that the diversity among the middle- or older-aged student population in online education programs largely depends on the diversity at the firms where they are employed, which the education providers shall remain double-blinded to anyway.

Cost hurdle to CFP® certification. The CFP Board Center for Financial Planning, (2018) mentioned that their conversations with Black and Latino financial planners revealed financial challenges to paying the typical \$6,000–\$10,000 cost of working toward and earning CFP® certification. This finding requires investigation, separately for students at different institutions. Younger students who tend to take their CFP® education at their university pay for the classes as part of their semester tuition, which is usually part of the cost of their undergraduate or graduate education. It should be investigated whether these students, including the ethnically diverse, need to pay extra fees for their CFP® education classes at their colleges. For the older professionals who get their education at private institutions such as the College for Financial Planning, they are paying for the cost of their CFP® education separately from their formal degree education. It is worth noting, though, that the employers of most of the firm-affiliated students (90 percent) at the College also agree to cover their employee-students' CFP® education fees and exam fees. Therefore, such students do not have a cost hurdle for CFP® education, presuming there are no racial or ethnic biases at their firms. However, not every firm has the policy of sponsoring the CFP® education and certification. This study has found that even with such wealth disparity, the net worth of degree holders is much higher than the median net worth of Black and Latino households, overall. Therefore, it is essential to seek clarity on the nature of the financial struggle, demographics, and situations that these students face in completing their CFP® certification. It seems that the problem of the cost of CFP® certification might not be of the same nature it seems through conversations with Black and Latino financial planners conducted by the CFP Board Center for Financial Planning (2018).

Tying it together. The financial planning profession has never reflected the diversity of the public that it serves, primarily because the profession is driven by wealth. In comparison to the servable ethnically diverse families that have always remained below the 1 percent level of the population, the 3.5 percent ethnically diverse CFP® certificants might seem adequate already. Therefore, it is counterproductive to fall back on existing client preference and the fallacy of growth of average incomes and assets of diverse clientele (CFP Board Center for Financial Planning, 2018). The financial planning profession goes to where the assets are, and Whites, not Blacks or Latinos, are holding most assets. Even though Blacks and Latinos represent over 31 percent of the general population, they represent only 3.5 percent of CFP® certificants and just 1.3 percent of senior management in financial services firms. Representation of Latinos and Blacks in the financial planning profession is aligned with the net worth and investable assets of their respective groups, not with their percentage of representation in the general population.

Increasing diversity in the financial planning profession will need to go hand in hand with improving the economic well-being and net worth of Blacks and Latinos. Blacks and Latinos have made recent advances; however, inequality continues to grow between Whites, Blacks, and Latinos. Blacks and Latinos still only represent 3 percent of the households with financial assets of over \$1 million. Considering that Latino and Black families represent only 7.3 percent of households with investable assets of at least \$100,000, and only 4.7 percent of households with investable assets of at least \$250,000, increasing the number of Black and Latino financial planners becomes a challenge if this is the demographic they would like to serve.

Current successful business models in financial planning depend on having fees tied to assets under management. The CFP Board and the stakeholders must realize that the real growth in the profession can probably come by nurturing the talent in the profession and developing innovative business models that could include everyone and not just serve high net worth individuals. With most Black and Latino households having a net worth of under \$100,000, the only recourse many of these individuals may have is pro bono advice, and this is not a sustainable business model for an advisor in the profession. The reality is that what the vast majority of Black, Latino, and even White households need are reliable social safety nets, such as Social Security and Medicare, and sound government policies. The lack of diversity in the financial planning profession reflects the economic disparity in our society, and neither problem can be solved independently of the other.

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Table 1. *Logistic Regression Financial Advisor Used for Different Decisions-Types*

Type of Decisions	**Savings and Investments**			**Borrowing**		
Financial Assets ($1 Mn)	**> 0.1**	**0.1 to 1.0**	**> 1.0**	**< 0.1**	**0.1 to 1.0**	**> 1.0**
Used Financial Advisor [0, 1]	**(1)** OR (SE)	**(2)** OR (SE)	**(3)** OR (SE)	**(4)** OR (SE)	**(5)** OR (SE)	**(6)** OR (SE)
Non-Whites [Ref: Whites]	1.02	0.89	0.61*	0.90***	0.86*	0.94
	(0.030)	(0.065)	(0.144)	(0.026)	(0.063)	(0.213)
Education Years	1.04***	1.00	1.02	1.03***	0.99	1.07*
	(0.006)	(0.011)	(0.040)	(0.006)	(0.011)	(0.035)
Female [ref: Males]	1.12***	1.59***	1.17	0.85***	1.14	1.55
	(0.039)	(0.164)	(0.330)	(0.035)	(0.101)	(0.434)
Married	1.13***	1.38***	1.09	0.94#	1.01	1.02
	(0.044)	(0.107)	(0.238)	(0.033)	(0.078)	(0.192)
Age 35 to 44 [Ref: Age< 35]	1.05	1.04	1.19	0.92*	0.99	1.27
	(0.041)	(0.137)	(0.645)	(0.032)	(0.130)	(0.661)
Age 45 to 54 [Ref: Age< 35]	1.04	1.04	1.47	0.97	0.89	0.97
	(0.040)	(0.114)	(0.690)	(0.036)	(0.098)	(0.409)
Age 55 to 64 [Ref: Age< 35]	1.00	1.31*	1.42	0.98	1.01	1.02
	(0.045)	(0.146)	(0.694)	(0.045)	(0.109)	(0.435)
Age 65 to 74 [Ref: Age< 35]	0.95	1.55**	2.00	0.94	1.15	1.12
	(0.054)	(0.191)	(1.017)	(0.046)	(0.135)	(0.501)
Age > 75 [Ref: Age< 35]	0.97	1.29#	1.22	0.96	0.76#	0.84
	(0.060)	(0.180)	(0.598)	(0.057)	(0.108)	(0.372)
Kids	0.97*	0.97	0.97	0.96**	0.95*	1.05
	(0.013)	(0.031)	(0.070)	(0.013)	(0.022)	(0.067)
Ln Income	1.00	0.98	1.02	1.00	1.03	1.08*
	(0.014)	(0.027)	(0.035)	(0.016)	(0.029)	(0.040)
Ln Financial Assets	1.12***	1.21***	1.17#	1.09***	1.05	0.93
	(0.006)	(0.051)	(0.098)	(0.008)	(0.045)	(0.063)
Ln Non-Financial Assets	1.04***	1.08***	1.03	1.04***	1.07***	1.08#
	(0.004)	(0.015)	(0.040)	(0.005)	(0.015)	(0.044)
Ln Debt	1.01*	1.01	1.01	1.04***	1.04***	1.07***
	(0.003)	(0.007)	(0.012)	(0.003)	(0.006)	(0.009)
Year 2007 [Ref: Year 2004]	1.28***	1.07	1.57*	1.40***	1.05	1.23
	(0.066)	(0.089)	(0.354)	(0.074)	(0.089)	(0.234)
Year 2010 [Ref: Year 2004]	1.46***	1.24**	1.29	1.55***	1.16#	1.05
	(0.072)	(0.095)	(0.240)	(0.078)	(0.103)	(0.181)
Year 2013 [Ref: Year 2004]	1.40***	1.36***	1.44#	1.65***	1.44***	1.29
	(0.066)	(0.113)	(0.313)	(0.075)	(0.131)	(0.232)
Year 2016 [Ref: Year 2004]	1.81***	1.48***	2.09**	2.07***	1.56***	2.23***
	(0.091)	(0.143)	(0.545)	(0.110)	(0.179)	(0.479)
Intercept	0.11***	0.05***	0.10	0.12***	0.21**	0.11#

	(0.017)	(0.032)	(0.143)	(0.022)	(0.104)	(0.136)
N	15841	6674	5166	15841	6674	5166
LR Chi 2	930.9	159.7	108.4	1080.1	218.6	379.2
P-Value	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

# p<0.1, * p<0.05, **p<0.01, ***p<0.001 OR = Odds ratio, SE = Standard Errors (Repeated Imputations Inferences)