

RACIAL DIVERSITY IN FINANCIAL PLANNING:

WHERE WE ARE
AND WHERE
WE MUST GO

EXECUTIVE SUMMARY

As consumer demand for financial advice grows, it is imperative that the financial planning profession work toward expanding and diversifying the ranks of financial planning professionals who can meet the needs of increasingly diverse consumers. Less than 3.5 percent of the 80,000 CFP® professionals in the United States as of 2017 are black or Latino, which is significantly less than the percentage of blacks and Latinos across the U.S. population standing at 13.3 percent and 17.8 percent, respectively.¹ New census projections estimate that people of color will become the majority of the U.S. population in 2045 with whites accounting for 49.9 percent of the population by then.² These projections demonstrate that the driving demographic engine of the nation's progress will be communities of color.

The financial planning profession, which does not reflect the diversity of the public it must serve in the future, risks being irrelevant in

the face of these changing demographics and increasing wealth among consumers of color. Thus in 2017, the CFP Board Center for Financial Planning (the Center) commissioned a unique qualitative and quantitative research study to examine the lack of racial and ethnic diversity within the financial planning profession. Findings from this research will provide the foundation for future Center programs to increase racial and ethnic diversity in the financial planning workforce.

Key Components of The Center's Racial and Ethnic Diversity Initiative

In 2017, the Center launched its Racial and Ethnic Diversity Initiative with the goal of increasing the number of black and Latino CFP® professionals. The Center conducts research and serves as a convener to engage stakeholders across the financial services sector to advance racial and ethnic diversity in the financial planner workforce to ensure that the profession can better meet the needs of an increasingly diverse American public.

To address this challenge and its root causes, the Center invited experts in diversity and inclusion, executives in financial services firms, program directors from colleges and universities, representatives from organizations serving people of color, and CFP® professionals to participate in a Diversity Advisory Group to advise on its diversity initiatives. The Center, guided by its Diversity Advisory Group, commissioned a comprehensive research study to identify the barriers to racial and ethnic diversity in the financial planning profession. As part of its agenda to foster this diverse workforce, the Center held a Diversity Summit on October 23, 2018 to explore the implications of research findings and engage participants in research-based actions to build a more racially and ethnically diverse financial planning workforce.

The Business Case for Racial Diversity in Financial Planning

Despite persisting wealth gaps that continue to affect communities of color across the country, median weekly earnings for blacks and Latinos have risen in the last decade.³ Collectively, the buying power of these communities is valued over a trillion dollars and is expected to increase in the coming years.⁴ Firms that ignore the changing face of wealth in this country will be poorly equipped to handle emerging markets and will ultimately end up leaving money on the table.

Racial and ethnic diversity is also crucial to the sustainability of the financial planning profession, which is facing an exodus of employees as its workforce continues to age and retire. This departure of older financial planners, the increased demand for financial planners, and the shifting demographics of the U.S. population magnify an expected shortage in the workforce. Not having a sizable number of diverse advisors waiting in the wings compounds this expected problem. Increasing the diversity of the profession, including implementing the recommendations below, will help mitigate this impending workforce crisis.

Realities Facing Black and Latino Prospective Financial Planners

Conversations with black and Latino financial planners reveal challenges of entering and advancing in the financial planning profession, including lack of awareness and financial barriers. For example, the cost of pursuing CFP® certification, including the cost of education and preparing for and sitting for the CFP® Certification Examination, can range from \$6,000 - \$10,000 which can present a significant financial barrier to becoming

certified, particularly for those coming from traditionally disenfranchised communities. In addition, many black and Latino financial planners said that the profession's lack of diversity and representation is intimidating or unwelcoming. At the same time, CFP® professionals of color also pointed to the following benefits of the profession:

- autonomy in their career (e.g. the ability to make their own schedules, choose who they work with and be their own boss);
- the ability to determine how financial services are designed and delivered;
- the high and stable income after their first few years;
- the opportunity to help improve others' understanding of their personal finances and financial planning;
- expanding access to financial services in underserved communities;
- the variation in their day-to-day work; and
- the healthy work-life balance.

Summary of Research Findings

The findings of the diversity research can be summarized by the following overarching observations:

- Due to economic inequality and cultural norms, blacks and Latinos lack awareness of financial planning and the CFP® certification process.
- Firms' hiring and onboarding practices, including the focus on immediate return, commission structure, like-to-like mindset and subjective hiring criteria, are seen as a major barrier to diversity and inclusion throughout the financial services industry and financial planning profession.
- Clients' bias in choosing a financial planner also functions as a barrier to racial diversity in the industry and the profession.

¹U.S. Bureau of Labor Statistics.

²U.S. Bureau of Labor Statistics.

³U.S. Bureau of Labor Statistics.

⁴How to Fix the Industry's Race Problem, Charles Paikert, Financial Planning.com. August 2014.

- Various constituents differ dramatically on what they think the root causes are of underrepresentation of black and Latino financial planners.
- Despite the fact that black and Latino CFP® professionals and prospects are more likely to distrust the profession, black and Latino CFP® professionals say they are as highly satisfied in their careers as other CFP® professionals and are more likely to recommend the profession than other CFP® professionals.
- Most segments agree on initiatives for boosting diversity, as well as potential messaging strategies to communicate the importance of diversity to firms and attract more black and Latino prospects to the profession.

LACK OF MENTORS IS CITED AS A ROOT CAUSE FOR LACK OF DIVERSITY.



29% BLACK CFP® PROFESSIONALS



18% LATINO CFP® PROFESSIONALS



A Sampling of Recommendations

What CFP Board and The Center for Financial Planning Will Do

- Maintain a Diversity Advisory Group.
- Continue to convene Diversity Summits to increase diversity in the financial planning profession for the benefit of the American public.
- Expand the “I am a CFP® Pro” education campaign, which showcases diverse young CFP® professionals.
- Establish a CFP Board Mentorship Program.
- Develop a toolkit to assist black and Latino candidates in the CFP® certification pipeline.
- Establish scholarship programs for underrepresented individuals in the financial planning profession.
- Raise the visibility of black and Latino leaders in the profession through more recommendations found in the full report.

What Firms Can Do

- Educate firm owners, senior leaders and managers about the value of a diverse workforce beyond working with clients of color.⁵

- Embed diversity, equity and inclusion into the firm’s growth strategy.
- Increase the involvement of black and Latino financial planners in recruiting diverse talent, while being careful not to tokenize current employees.
- Recognize that black and Latino prospects pursuing CFP® certification may be deterred by the costs and time commitments required to pursue CFP® certification and develop policies to support their employees in pursuing certification.
- Encourage top management and owners of financial firms to make transparent commitments to racial diversity by specifying measurable diversity, equity and inclusion goals for the firm and monitoring progress toward those goals.

What CFP Board Registered Programs Can Do⁶

- Partner with CFP Board and the Center on joint initiatives designed to encourage diverse students at your college or university to consider a career in financial planning.
- Promote CFP Board and the Center’s existing programs within your network to raise awareness of financial planning careers and to offer support to those on their way into the profession.
- Identify speaking and exhibiting opportunities for the Center at your events and conferences to raise awareness of the financial planning career, leveraging the Center’s network of CFP® pro speakers around the country.

What Influencer Organizations Can Do

- Partner with the Center on joint initiatives designed to encourage constituents to consider a career in financial planning.

- Promote CFP Board and the Center’s existing programs to raise awareness of financial planning careers.
- Identify speaking and exhibiting opportunities for the Center at events and conferences.
- Hold financial institutions accountable for advancing racial diversity, equity and inclusion within their workforce.
- Work with firms to help them uncover and teach entry points of working with diverse communities. Teach them how to do this through the recommendations outlined in the report.

What You Can Do

- Become a mentor and/or a reverse mentor.
- Actively and continuously learn about allyship and practice it in meetings, throughout hiring and/or promotion processes, and in daily interactions.
- Advocate for and recommend people of color within your firm or with others for advancement and opportunities.
- Give the gift of education by contributing to Center scholarship programs for underrepresented populations in financial planning.



⁵ Effective Ways Your Organization Can Educate Employees on Diversity. Retrieved at <https://www.forbes.com/sites/forbescoachescouncil/2018/06/28/13-effective-ways-your-organization-can-educate-employees-on-diversity/#22f36e4c56ab>.

⁶ CFP Board-Registered Programs are financial planning education programs at the college or university level that meet specific criteria for educating individuals who wish to fulfill the education component for obtaining CFP® certification.