ADDRESSING IDENTITY AND CULTURE TO IMPROVE CLIENT SERVICES AND NATIONAL IMPACT IN THE FINANCIAL PLANNING PROFESSION

EXECUTIVE SUMMARY

By the year 2050, studies have shown that the United States will become a nation where the majority of the population is comprised of minority or marginalized groups. However, the financial planning profession is currently comprised of less than 3.5% of black or latinx CERTIFIED FINANCIAL PLANNERS™, and the majority of United States CFP® Professionals are white. Many organizations, such as the CFP Board, are working toward raising awareness of the racial diversity gap in the financial planning profession.

However, a deeper problem here needs to be addressed. Looking beyond how to diversify the profession to better reflect the diverse future of the United States, financial planners as individuals can start to incorporate a better understanding of minority populations to improve their service model.

It's not a secret that identity and culture impact how people view the world - and finances are no different. By taking the time to understand the history of the racial wealth gap, and learning to practice financial empathy with their marginalized clients, financial planners are pursuing a level of growth that will serve to benefit the United States population as a whole. This is especially true as we near a time when the majority of the population will, as previously stated, be comprised of minority groups.

The 2050 TrailBlazers team has worked to outline the various challenges that racial minority groups have historically faced, and are currently facing - and how those challenges impact their financial experience. 2050 TrailBlazers believes that, through a broader understanding of how identity and culture impact financial decisions, the members of the financial planning profession will be able to improve their service model, and better serve their clients in a true fiduciary capacity, for decades to come.

UNDERSTANDING THE RACIAL WEALTH GAP

Many people embrace the concept that a racial wealth gap existed in the past, viewing it as a long-gone and understandably problematic economic discrepancy dating back to the emancipation of slaves in the United States, and the passing of Jim Crow laws. Intentional segregation of racial minorities, and the historical enslavement and abuse of marginalized communities, certainly had a dramatic impact on the wealth gap between majority-white people and minority people of color.

Studies by The Fed show that wealth-holding records, when broken down by race and ethnicity, highlight the discrepancy between white and non-white households. In 2016, the median and mean net worth of white families ranged from $171,000 and $933,700. To compare, black families' median and mean net worth ranged from $17,600 and $138,200, and Hispanic families' median and mean net worth ranged from $20,700 and $191,200.

However, the misunderstanding we face in our society today is that the racial wealth gap is a problem that only existed in the past when, in fact, the racial wealth gap continues to grow in modern America.

Looking outside of these two minority groups, other marginalized communities including (but not limited to) families identifying as Asian, American Indian, Pacific Islander, Native Hawaiian, or Native Alaskan all were recorded to have notably lower median and mean net worth in comparison to their white counterparts, as well.

The study comparing median and mean household net worth dug deeper to uncover why it seemed that white families were holding such a significant amount of wealth when compared to their non-white counterparts.

Several key findings came up, including

- Non-white families were more likely to have a single-parent household
- Black and Hispanic families were less likely to be homeowners
- Black and Hispanic families were less likely to have retirement accounts or business equity

This research shows us, if nothing else, that the racial wealth gap is alive and well in the United States today. The key is digging deeper to understand how income inequality and systemic oppression of marginalized communities continue to contribute to the problem of the racial wealth gap, and how that impacts prospective clients and the financial planners who walk alongside them.

HISTORY OF SYSTEMIC OPPRESSION, AND HOW IT IMPACTS THE FINANCES OF AMERICAN FAMILIES

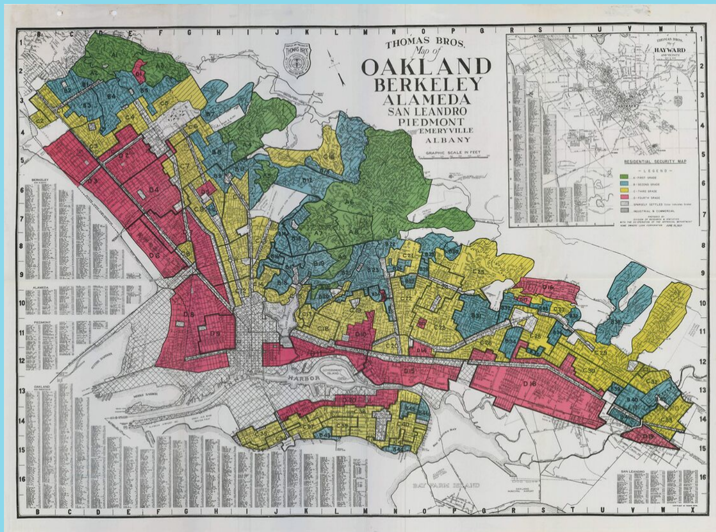
The National Equality Project states that all forms of bias and prejudice are learned - and can be unlearned. They also state that systemic oppression, as well as any other injustice, is a human creation. In other words, the racial wealth gap and systemic racial oppression are not things that happen naturally in American culture. Americans have to actively participate in these systems that are harming marginalized groups' well-being and ability to thrive.

While there are many ways that racial minority groups have been oppressed historically in American culture, the financial planning community benefits from focusing on how systemic oppression has negatively impacted the financial success, and the financial worldview, of minority households. Unfortunately, defining systemic oppression can be difficult when it seems that the scope is so wide. Here are just a few clear examples of systemic oppression, and how they impact American minority families.

Redlining

Redlining was outlawed in 1968 with the Fair Housing Act that banned racial discrimination in American housing. The practice was institutionalized in the 1930s, which means there were 30+ years where discriminating on the basis of race in housing was not only legal - there was a system that encouraged it. This practice still impacts minority families in many ways - as is evidenced by The Fed's research on the racial wealth gap, and the unlikelihood of minority families to own homes when compared to their white counterparts.

What is Redlining?



Source: Redlining: Race and Equality in America, Periphery Center (http://www.peripherycenter.org/culture/redlining-race-inequality)

Redlining was a practice that was originally instituted in 1934. Surveyors would mark city maps using a color-coded system that defined neighborhood quality.

The system is as follows:

- Green - Best
- Blue - Still Desirable
- Yellow - Declining
- Red - Hazardous

The criteria for these color-coded definitions were largely based on the perception of credit stability of a neighborhood (which took ethnic and racial background into account), home prices, and local amenities. Neighborhoods that were redlined were comprised of primarily black, Asian American, and Southern European racial groups - as well as several religious minorities.

As people from racial and ethnic minority groups continued to seek home loans in "hazardous" neighborhoods, lenders continued to "redline" them by refusing a loan or insurance because the neighborhood was considered to be too high-risk. If lenders approved a loan, it was likely at a much more expensive rate than it would be in a non-redlined neighborhood.

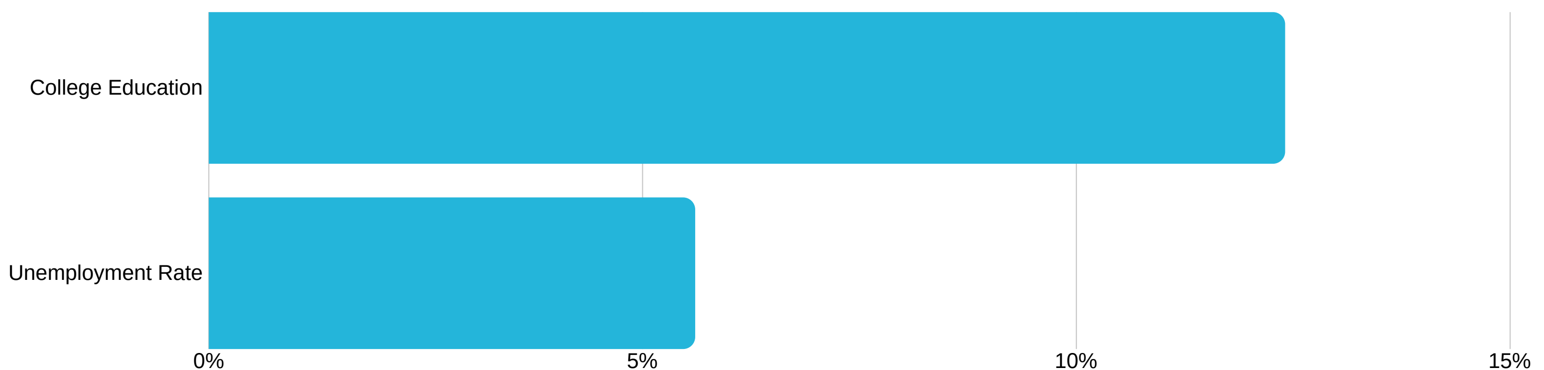
Redlining, continued.

During this time, the government was working on several housing programs targeted toward white, suburban, middle-class families under the New Deal. Minority groups were largely left out of these programs, and with institutionalized redlining running rampant, were pushed to seek temporary housing in urban developments or redlined neighborhoods. This has contributed to the segregation of American cities and has been a major contributor to the racial wealth gap. With homeownership being off the table, or disproportionately expensive, to minority families for so long - their ability to grow wealth has been limited in the past century.

Implicit Hiring Bias and Unemployment Rates

The black unemployment rate is, on average, twice as high as the white unemployment rate. While critics of racial wealth gap research may point to this statistic as a reason to pin the wealth discrepancy on the lack of employment (or employability) of minority groups - research shows that this isn't the case. A 2010 study found that black Americans were significantly more likely to lose their jobs in a recession, or during an economic downturn than white Americans.

Some critics still point to a potential skills gap as being a reason for this unemployment discrepancy. However, black Americans with a college education are still twice as likely to be unemployed than white Americans.



In fact, the unemployment rate for black Americans with a college education sits at 12.4%, in comparison with an overall unemployment rate for college graduates of 5.6%.

Another experiment was conducted to test bias and racial discrimination in the employment market. The study, published by the American Economic Review in 2004, used traditionally white and non-white names to manipulate the perception of race in the hiring process.

Over the course of the study, traditionally “white-sounding” names received a callback or had an interview scheduled 50% more often than traditionally “African-American-sounding” names.

This data highlights the presence racial discrimination in the workplace, which further contributes to the racial wealth gap, and how minority families and individuals may orient themselves to their personal finances, as well as financial planning as a whole.

LACK OF DIVERSITY IN THE FINANCIAL PLANNING PROFESSION NEGATIVELY IMPACTS ADVISORS' ABILITY TO UNDERSTAND AND GUIDE THEIR MINORITY CLIENTS

By the year 2050, studies have shown that the United States will become a nation where the majority of the population is comprised of minority families and individuals.

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By contrast, the financial planning profession is currently comprised of less than 3.5% of black or latinx CERTIFIED FINANCIAL PLANNERS™, and the majority of United States CFP® Professionals are white.

There are many initiatives from the CFP Board, and advisor networks or organizations to improve the diversity and inclusion among the financial planning profession, but that doesn't mean that non-minority planners can't adjust their lens, and focus on financial empathy for minority clients and underserved communities.

Studies have shown that white Americans often lack empathy across the socioeconomic spectrum. However, fiduciary financial planners have a legal obligation to act in their clients' best interest. As such, lacking empathy for racial and ethnic groups that don't share a similar background or experiences is a non-starter. Many advisors recognize this and are actively working to seek resources to help them better understand the financial background of minority families.

This process, often referred to as financial empathy, can help to prepare financial planners to understand the story behind the personal finances of minority families, and to gain a deep appreciation for unique money scripts that have been developed as a result of cultural identity and influence, as well as discrimination, systemic oppression, and the racial wealth gap.

Michael Thomas, Jr., a Ph.D. student at the University of Georgia, is exploring how to strengthen minority families and build stronger communities by bringing financial services to historically underserved populations. He has also compiled research and given a number of presentations and talks on the importance of financial empathy throughout the financial planning profession - starting in the classroom.

When it comes to financial planning, Thomas points out that empathy is one of the strongest tools that planners can use to better serve the American population as a whole. Although experiences may differ, having financial empathy and cultural understanding can help financial planners to dig deeper to understand societal pressure, historical context, and cultural influence that impacts how minority families view money and their own finances.

HOW CAN YOU HELP?

Financial planners can empower each other to pursue financial empathy, and to research cultural history and background to improve their ability to serve clients in a fiduciary capacity based on understanding and trust. Not sure where to begin? Check out these actionable tips for improving your financial empathy:

- Practice allyship as a verb, not a noun. Focus on ongoing self improvement, do the research, and show up for your colleagues.
- Find ways to increase diversity within the profession. Improve hiring processes, focus on supporting minority organizations, and more.
- Do pro bono work in underserved communities to protect them from predatory financial service professionals.

MEET THE AUTHOR,

Rianka R. Dorsainvil, CFP®

Rianka R. Dorsainvil, CFP® is the Creator and Host of 2050 TrailBlazers. Additionally, she is the Founder and President of Your Greatest Contribution (YGC), a virtual comprehensive financial planning firm dedicated to serving entrepreneurs and professionals in their late 20s, 30s, and 40s.

Rianka has a platform, and a responsibility, to show others that you can be a woman, a person of color, and have success in this profession. There are only 23% women CFP® professionals — the same number for the past 13 plus years. The number is even lower, in the single digits, when talking about the number of CFP® professionals who are people of color. One of the goals of 2050 TrailBlazers is to spark the conversation that will help change this statistic.

Through her leadership, contribution, and volunteerism within the financial service industry, Rianka has been recognized by numerous publications. Additionally, Rianka has been published twice in the *Journal of Financial Planning* where she shared her research around cultural and wealth patterns of the millennial generation.

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