

**Title: Will Pro Bono as Continuing Education credits enhance CFP as a profession in extending social contracts?**

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**Abstract**

Certified Financial Planner or CFP is a young profession compared to the legal profession. The legal profession has 139 years of history. To meet legal professional competencies in the Code of Ethics, the legal profession is required to complete a maximum of ten (10) Continue Learning Education hours in pro bono activities every two years. In contrast, the CFP profession has 32 years of history and does not require pro bono activities as continuing education credits to meet competency in the Codes of Ethics. Additionally, the American Bar Association further advances the value of the legal profession by using pro bono to create social contracts.

With a troubled past image as an industry, more CFPs can be role models and provide leadership to society. To encourage more pro bono activities locally, the CFP board can consider modeling the legal profession's Codes of Ethics requirements to include pro bono activities. Pro bono requirements can manifest as service-learning activities or one-on-one counseling to improve overall financial behaviors and household financial well-being. This can potentially extend the CFP profession into a social contract, not only by doing good for society, but also by raising the CFP profile in society.

**Introduction**

Walters (2007) reported the underserved population for financial planning was “about 1–2 percent of potential 108 million households.” To further clarify the definition of potential households, there are three types of clients served by Financial Planning Association members (the majority being CFPs):

- 1) Lower end of mass affluent
- 2) Middle market
- 3) Mass market/mainstream

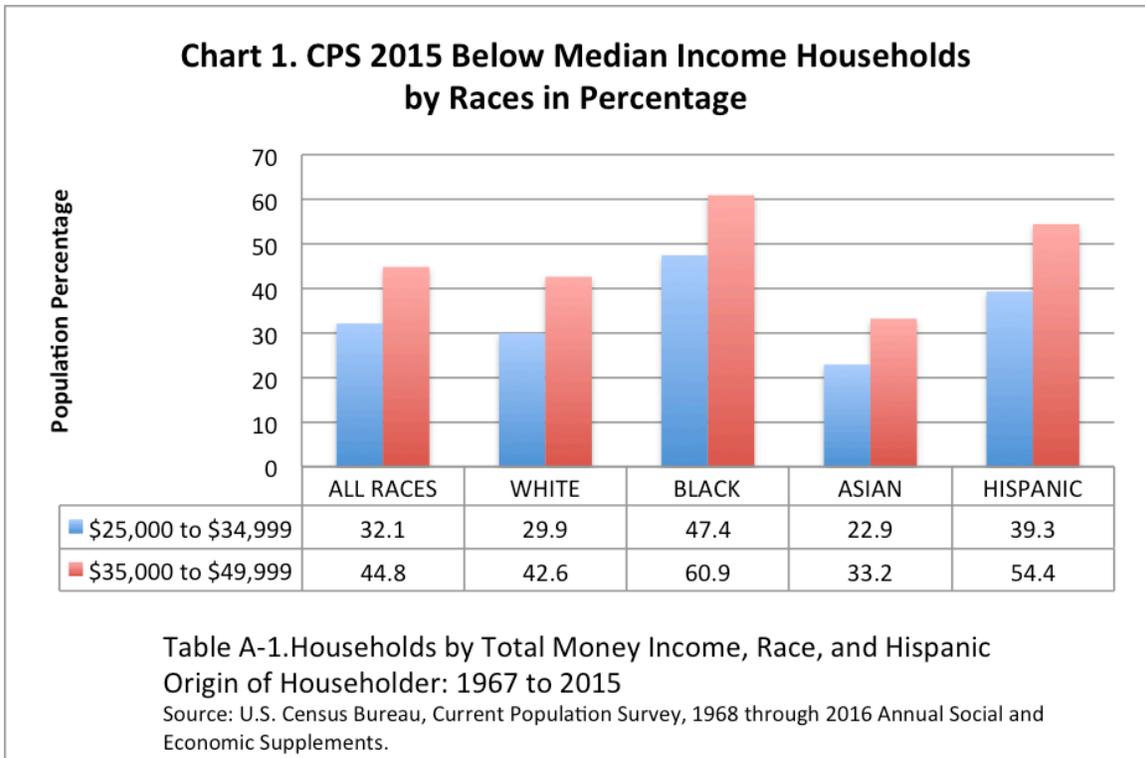
Walters (2007) defined the middle market as 1) household income ranges from \$65,000 to \$125,000, 2) investable assets (retirement and non-retirement) ranges from \$100,000 to \$250,000 and 3) net worth ranges from \$250,000 to \$500,000.

This translates into an underserved population of about 1 to 2 million households in the U.S. that are not being serviced when it comes to financial advice. But the underserved population is worse than Walters (2007) reported.

**Why does pro bono matter for CFPs as a profession regarding underserved populations?**

The U.S. median household income in 2015 was \$55,775 according to a recent U.S. Census Bureau report by Posey (2016). Furthermore, 14.7 percent of the U.S. population was categorized as below the poverty level in 2015 in the recent U.S. Census Bureau report by Bishaw & Glassman (2016). The below poverty level population is approximately 48 million units. Poverty status is determined for individuals in housing units and non-institutional group quarters per definition by the U.S. Census Bureau.

The underserved population is defined in this article as a household income below the 2015 median income or less than \$50,000. The underserved population represented 56 million households or 44.8% of the population according to the Current Population Survey (CPS) in Posey (2016). Chart 1 shows this breakdown of the underserved population needs with a focus on race (Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2015). Individuals could also report multiple races. This information displays the need of minorities for access to financial services. Chart 1 illustrates the growing pattern of these underserved populations. Black leads at 60.9% followed by Hispanic at 54.4%, White at 42.6% and Asian at 33.2%. These underserved populations could certainly benefit from advice by CFPs, but they often cannot afford to pay for those services.



**What is a social contract, and what is its relation to CFPs?**

Hasnas (1998) identified a social contract as “an implicit agreement between society and an artificial entity in which society recognizes the existence of the entity on the condition that it serves the interests of society in certain specified ways.” This means the underserved population is part of society/communities that can greatly benefit from CFPs (as an entity) and potentially reduce the overall societal burden of wealth redistribution. Wealth redistribution comes from welfare programs, social security, etc.

However, this would require more CFPs to contribute their service at pro bono or below market price. The conflict between pro bono and for profit business models may potentially discouraged CFPs from providing pro bono services. However, CFP as a profession has social responsibilities to better the entire society, not just their own interests.

Ragatz & Duska (2010) described the financial profession, as an “industry is useful to society because its practitioners help people manage their financial risk and provide for their financial future.” They also identified four characteristics of a profession: Professions first, engage in a vocation that is useful and noble. Second, the professions required the possession of expert knowledge. Third, pursuing one’s self-interest to the exclusion of everyone else or unfettered selfishness. Fourth, spirit of loyalty to other professionals.

CFPs should uphold the highest standards in the financial profession. Therefore, CFPs need to maintain and improve their professional competencies in the Codes of Ethics like any other profession, according to Ragatz & Duska (2010).

### **How does Pro Bono work in other professions such as law and accounting?**

Table 1 compares competencies in the Codes of Ethics between the professions of law, CPAs and CFPs. For the legal profession, the governing body is The American Bar Association or ABA, but each state provides specific guidelines for the state level competencies and code of ethics are guided by the ABA rules. The ABA has 139 years of guiding the legal profession. Take New York State as an example. The competency requirement for the legal profession is to maintain 48 Continuing Legal Education (CLEs) hours every two years. This includes 4 CLEs in ethics and a maximum of 10 CLEs in pro bono work.

Profession	Legal Profession	CPA Profession	CFP Profession
Governing Board	American Bar Association (ABA)	American Institute of CPAs (AICPA)	Certified Financial Planner Board of Standards, Inc. (CFP Board)
Prof. Years	139 years	121 years	32 years
Continue Education (CE) Requirements	48 CLEs every 2-year cycle ( <a href="#">NY State</a> )	24 CPEs annually ( <a href="#">NY State</a> )	30 CE every 2-years cycle
Ethics Requirement	4 CLEs ( <a href="#">NY State</a> )	4 CPEs every three years ( <a href="#">NY State</a> )	2 CEs
Pro Bono	Maximum 10 CLEs ( <a href="#">NY State</a> ) equals to 20 hours of service	None	None
History	<a href="#">Legal as a profession has been in place since 1878</a>	<a href="#">CPA has been in existence since 1896</a>	<a href="#">CFP as a profession since 1972 and CFP Board since 1985</a>
Table 1: Legal, CPA and CFP Profession comparisons.			

Like the ABA, the American Institute of CPAs or AICPA also has individual state requirements for competencies guided by ACIPA rules for the last 121 years of history in the CPA profession. For example, a CPA in New York State needs to maintain 24 Continuing Professional Education hours or CPEs every year. This needs to include 4 CPEs for ethics, but there is no pro bono requirement.

In the AICPA Professional Ethics Division (2016) Frequently Asked Questions section, they provide a detailed guideline for pro bono or below cost fees. Hence, many accountants provide pro bono services through not-for-profit groups such as Accountants for the Public Interest (API) according to Shafer & Park (1999). Services provided through API affiliates also include Internal Revenue Service (IRS) sponsored programs like Volunteer Income Tax Assistance (VITA) for tax preparation. VITA has often been hosted by nonprofit organizations such as The United Way or AARP that specifically help underserved populations. Income guidelines for free tax preparation at VITA mandates that taxpayers must have less than \$54,000 in income or be persons with disabilities or limited English speaking taxpayers who need assistance in preparing their tax returns.

Shafer & Park (1999), who found resources for CPAs who want to make a difference, concluded, "Pro bono services can benefit the accounting profession by enhancing the public image of CPAs. The AICPA Code of Professional Conduct recognizes a commitment to serve the public interest, and participation in pro bono services is one way CPAs can demonstrate this commitment, thereby increasing public trust in the profession."

**Teaching social contracts early in the profession.**

VITA has been used as a student Service-Learning Activity or SLA in many colleges and universities as part of their core curriculums. The legal profession extends social contracts by encouraging all branches of the legal profession to contribute 10 CLEs in their own communities every two years. The CPA profession extends social contracts through nationally well-established programs like VITA. Yorio & Feifei (2012) found that SLA had positive effects on understanding of social issues. Yorio & Feifei (2012) defined social issues as “an individual’s frame of reference that guides decision making in terms of complex social issues.” The sample measures included:

“Diversity and cultural awareness and sensitivity; perceptions of homeless, elderly, disabled, different races or cultures; ethical and moral values and decision making; interpersonal skills; underrating of the needs of the community; understanding how to help the community; a desire to engage in future service activities in terms of both a feeling of responsibility and commitment to do so.”

Palmer, Goetz, & Chatterjee (2009) found that university students who participated in SLA are more likely to provide pro bono service as financial planning professionals. Palmer et al. (2009) demonstrated that the VITA program can be an effective and dynamic SLA for financial planning students saying, “Participation in such activities not only provided immediate satisfaction, but also affected their intentions to engage in, and organize, pro bono efforts in the future.”

**Why pro bono is needed as CFP Code of Ethic/Competency to extend in social contract?**

As demonstrated by the data from Table 1, CFP is a young profession, only in existence about 32 years. The Continuing Education (CE) requirement is 30 CEs every two years and that includes 2 CEs in ethics but no pro bono requirement. In contrast, Accountants for the Public Interest (API) provides resources for volunteer opportunities such as VITA where CPAs gain public trust or provide service as a social contract for many years. Pro bono work in the CFP profession has begun to flourish due to needs of victims from the September 11 attacks. To staff these efforts, the Foundation of Financial Planning primarily sponsors pro bono work using volunteers from the Financial Planning Association (FPA). There are pro bono activities in many of the 100 FPA chapters throughout the United States.

For the Financial sector, one of the most well-known public service events is Financial Planning Day. Financial Planning Day is an annual event when the Foundation of Financial Planning, FPA, the CFP Board, and the U.S. Conference of Mayors join forces. According to the United States Conference of Mayors website, it is “the official nonpartisan organization of cities with populations of 30,000 or more. There are 1,407 such cities in the country today. Each city is represented in the Conference by its chief elected official, the mayor.” CFP volunteers their time and expertise to offer free one-on-one counseling and classroom-style educational presentations addressing key personal finance topics. There are approximately 23 cities in the United States currently who provided services for Financial Planning Day in 2016 in order to increase the public awareness of CFP as profession. In 2012,

FPA of Charlotte, NC received a Financial Planning Proclamation from the Charlotte Mayor after hosting several Financial Planning Days to increase the public interest in financial well-being.

Across the country, there were approximately 5,570 one-on-one financial planning sessions provided by CFP volunteers, according to the FPA Annual Pro Bono Impact Report 2014. There were as many as 18,228 in attendance at 1,484 presentations nationwide. There were 2,646 CFP volunteers logging 18,769 volunteer hours or the equivalent of \$3,753,125 in value for financial planning services. But more needs to be done.

### **Public image in the financial industry**

The financial industry has a troubled past in the eyes of the public. For example, many investors lost their life savings to Madoff's Ponzi scheme prior to 2009. In 2008, many homebuyers could not afford the mortgage collapsed due to the financial crisis. Additionally, a few giant financial institutions manipulated the Libor and foreign exchange rates, which resulted in the 2014 Libor and Forex scandals. And most recently, Wells Fargo wrongfully and secretly opened accounts without clients' consent. These scandals further damaged the financial industry in terms of public trust and support. From a social contract perspective, the image of the financial industry is painted as a negative contribution to society.

However, Pro bono activities could not only help underserved populations but also build public trust and support over time. Most importantly, CFP pro bono work could help people change their financial behaviors and help them build a more

stable financial future. This may potentially yield positive benefits to the overall well-being of and economic prosperity of society.

### **But there are other organizations already doing pro bono**

CFP is trained to work with wealthy client, not necessarily underserved populations. However, the process of financial planning applies to any financial assets and liabilities. The financial behaviors resulting from counseling from CFPs has a long-lasting effect.

Elliehausen, Lundquist & Staten (2007) found that “receipt of counseling was associated with a positive change in borrower credit profiles.” Elliehausen et al. (2007) concluded that people who self-select into counseling had many financial improvements such as reducing debt as well as seeking help prior to making future financial decisions.

### **Why would CFP pro bono offerings make a difference?**

People might argue that there are plenty of nonprofit organizations providing financial counseling to the underserved. For example, the National Foundation for Credit Counseling (NFCC) promotes a national agenda for financially responsible behavior and builds capacity for its members to deliver the highest quality financial education and counseling services. FDIC Money Smart (FDIC’s financial education curriculum) is also designed to help individuals learn the basics of personal finance. Most of these well-known nonprofit organizations predominantly focus on delivery of the financial education without first training their volunteers with any or only very basic CFP knowledge about financial planning

or counseling. As matter of fact, these organizations are partnered with the Foundation of Financial Planning for financial planning and counseling. Most of these organizations provide education via classroom presentations. They cannot address individual needs. Therefore, there is no possible way to provide counseling that is meaningful enough to change financial behavior. These offerings are inadequate.

On the other hand, CFPs have a vast number of advantages to offer. They can personalize their advice, which is much more impactful on pragmatic, realistic behavior changes. They also clearly have the knowledge and skills to do actual financial planning versus PowerPoints. For example, the Foundation of Financial Planning provides a planning tool called the Personal Financial Index or PFI. PFI is a comprehensive financial benchmark for individuals and families used during pro bono counseling provided by CFPs. This planning tool follows the CFP planning process to help underserved populations make meaningful financial behavior changes.

A recent popular offering designed for the masses is Robo-advisor. A Robo advisor (robo-adviser) is an online wealth management service that provides automated, algorithm-based portfolio management advice without the use of human financial planners. Robo advisors typically work with clients with small account balances such as \$50,000 or less, and they charge a small fee to manage accounts primarily using Exchanged Traded Funds or ETFs. Since there is no human interaction, there is no planning, no counseling, and no financial behavior changes.

In contrast to CFPs, the Robo-advisors' business model does not help clients paint an overall financial picture. This is especially crucial during accumulation and distribution phases that involve both assets and liabilities. It might seem old-fashioned, but customer service is usually more appreciated when people talk to a live person instead of a machine. Plus Robo uses a machine to reduce costs related to human staffing. Yet, financial planning is complex and can even be a confusing and emotional experience including embarrassment, anger, or vulnerability. CFPs can help clients control or manage their emotions as well as help them to avoid making costly mistakes.

### **How to best extends the social contract through CFP Pro Bono CEs?**

Mcphail (2005) found that using pro bono and service-learning activities as a method of continuing education, they generated a wider public interest in the profession such as legal pro bono publico. For example, service-learning activities in an experiential form of training was mostly introduced in financial planning classes in undergraduate or graduate programs. Mcphail (2005) concluded that through structured system in service-learning activities, pro bono work could potentially develop ethical agents and build a positive social contract of value.

According to the ABA Rules of Professional Conduct Rule 6.1: Volunteering Pro Bono Public Service, "Every lawyer has a professional responsibility to provide legal services to those unable to pay. A lawyer should aspire to render at least (50) hours of pro bono publico legal services per year." The pro bono publico legal services facilitates CLE's programs and encourages pro bono work in the legal

profession. ABA brilliantly mobilizes the legal profession to be part of the community according to a social contract perspective. The legal profession becomes part of the solution and builds reciprocal appreciation and value in the social contract.

**Additional CFP professional development and benefits.**

To volunteer in pro bono activities through the Foundation of Financial Planning and Financial Planning Association, a CFP must complete the 60-min. pro bono training. Pro bono training is provided for a CFP as a tool to help support underserved populations with a no-sales, no-strings attached approach. Each CFP volunteer must sign a contract agreeing to ethical standards of not selling a CFP's own services as well as compliance with a CFP's brokers & dealers. A pro bono client must acknowledge that "There is no fee for this service. The professionals have volunteered to provide free general financial planning information. Any information, conversations or recommendations I may receive are for informational purposes only, and reliance on such is solely at my own risk. No client, representative or agent relationship is created by my participation."

Additional benefits are also possible. Luesink (2011) reported the FPA New York chapter leveraged the existing pro bono process from the Foundation of Financial Planning and helped CFPs to improve their public speaking skills such as by teaching high school students about financial planning. In addition, they established relationships in their own communities with community based nonprofit organizations to provide one-on-one financial planning counseling to

underserved clients. Van Horn (2009) found, as a CFP volunteer, that the “process of giving back is extremely enriching ... pro bono work is fulfilling in many ways.”

For all of the reasons discussed in this paper, the CFP board should consider modeling CFP Continuing Education after the legal profession to include pro bono activities. As of October 31, 2016, there were 75,635 CFPs. Pro bono CEs can mobilize CFP volunteers throughout their own communities by adopting existing pro bono credits from the Foundation of Financial Planning. These pro bono CEs can be tracked and studied by the foundation to evaluate impact for underserved populations through financial planning counseling as well as increases in public trust and support over time.

### **Future research**

The Foundation of Financial Planning could consider studying pro bono clients for changes in financial behavior before and after financial planning counseling. Researchers could also study specific financial behavior changes resulting directly from CFP pro bono counseling. Additionally, they could study public perception changes regarding trust and support. Finally, they could study the impact of exposure to these professionals on career choices or changes. Financial planning could and should become an intrinsic value in society as a foundation of financial well-being, innovation, and an increased competitive edge for the entire society.

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