

LGBTQ Investors

Progress, potential, and planning

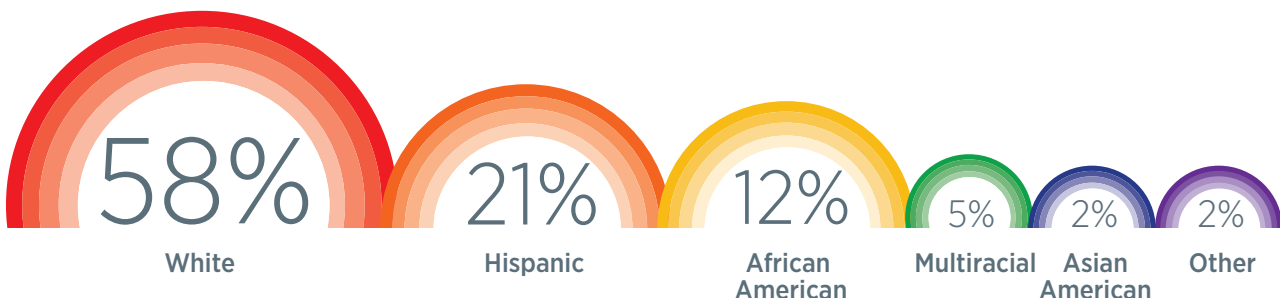
More than 13 million LGBTQ individuals in the U.S. today exert a high degree of social, economic, and demographic influence.

“The Supreme Court decision means we can now plan for the future like anyone else,” says José, a 47-year-old designer who married his partner, Peter, in 2015, after *Obergefell v. Hodges*, the landmark Supreme Court of the United States (SCOTUS) decision that made same-sex marriage legal in all 50 states. “When I’m investing, I’m not a gay investor. I’m just an investor, with my own questions and my own goals.”

José is just one of more than 13 million (ages 13+) accounting for 5.6% of the population^{1,2} who now exert a high degree of social, economic, and demographic influence. According to recent estimates, the annual purchasing power of the LGBTQ community is \$1.1 trillion—slightly less than Hispanics (\$1.5 trillion) and African Americans (\$1.3 trillion), but greater than Asian Americans (\$1 trillion).³ Globally, LGBTQ consumers are spending about \$3.9 trillion, and their estimated household wealth worldwide is \$23 trillion, with almost \$6.9 trillion in the U.S. alone.⁴

Yet for all of the legal and social progress that has positively impacted the LGBTQ community, research has revealed that LGBTQ investors are generally less confident and less diversified than their non-LGBTQ counterparts.⁵ How this could impact their long-term financial goals—and what some high-net-worth (HNW) and ultra-high-net-worth (UHNW) LGBTQ investors are doing about it—is the focus of this paper.

LGBTQ by the numbers⁶



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The road to marriage equality

1989

Denmark becomes the first country to legally recognize same-sex unions

1996

Defense of Marriage Act (DOMA) passes in U.S., defining marriage between one man and one woman for federal purposes

2013

United States v. Windsor paves the way for access to more than 1,100 federal provisions for same-sex couples

2015

Obergefell v. Hodges legalizes same-sex marriage across the U.S.

2020

Bostock v. Clayton County, Georgia rules that LGBT employees are protected from discrimination based on sex

Real freedom makes financial freedom possible

While there have been significant advances in LGBTQ legal rights, workplace protections, and social acceptance, our discussion begins by reviewing the three most significant LGBTQ events of the past decade: rulings by the United States Supreme Court in 2013's *United States v. Windsor*, 2015's *Obergefell v. Hodges*, and 2020's *Bostock v. Clayton County, Georgia*.⁷

Windsor centered on the Internal Revenue Service's attempt to deny the federal estate tax exemption to the surviving spouse of a same-sex couple whose marriage was recognized by the state of New York. The IRS cited the 1996 Defense of Marriage Act (DOMA), defining marriage on the federal level as between one man and one woman. In a 5-4 decision, the high court determined that DOMA violated the U.S. Constitution. Although the case only resolved the matter of the estate tax exemption, it quickly led to other federal agencies giving same-sex couples access to numerous tax, military, employment, and immigration benefits previously reserved for heterosexual couples.

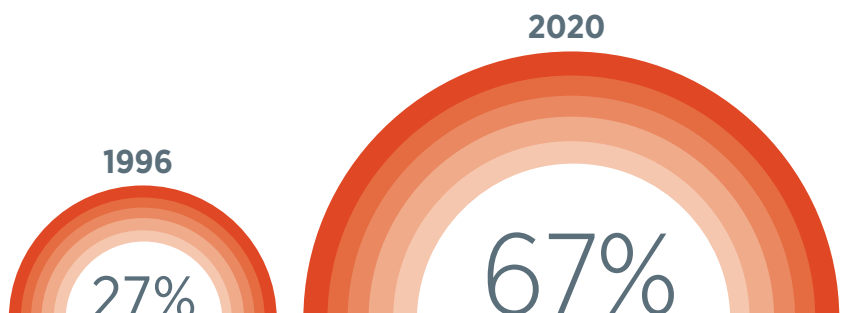
By the time of the *Obergefell* ruling just over two years later, 36 states, the District of Columbia, and Guam were issuing marriage licenses to same-sex couples. By another 5-4 margin, the court deemed that any remaining state bans on same-sex marriages were also unconstitutional. Same-sex marriage was now legal throughout the U.S.

These were watershed moments for the LGBTQ community and the nation. Since *Obergefell*, approximately 293,000 same-sex couples have married, bringing the total number of same-sex couples to 513,000 nationwide.⁸ Meanwhile, national acceptance of same-sex marriage has risen 40% since 1996.⁹ Rights were also solidified in the workplace, when the *Bostock* decision affirmed that the Civil Rights Act of 1964 extended to LGBT employees and that employers could not discriminate against them based on sex.

In addition to bestowing newfound legal freedoms and keeping pace with changing societal attitudes, the rulings also ushered in a new era of financial flexibility and simplicity for married same-sex couples—particularly for those couples with substantial assets. And according to a recent survey, 49% of LGBTQ investors agree that financial life has become less complicated thanks to thanks to SCOTUS' decisions.

Acceptance of same-sex marriage in America¹⁰

1.1 million
same-sex
married individuals⁸



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Has less complexity translated into financial expertise?

The answer may depend on which segment of the LGBTQ community you ask, as you can see from the following data points:¹¹

- More than 30% of LGBTQ women said they aren't sure how to evaluate their financial options, versus 25% of LGBTQ men
- More than 40% of LGBTQ women said they lack a trusted financial advisor, compared with less than 30% of the other three groups (LGBTQ men and non-LGBTQ men and women)
- In a recent survey on financial wellness in America, savings rates of LGBTQ adults who are saving for retirement lag their straight counterparts (setting aside \$126,000 for retirement vs. \$158,000)

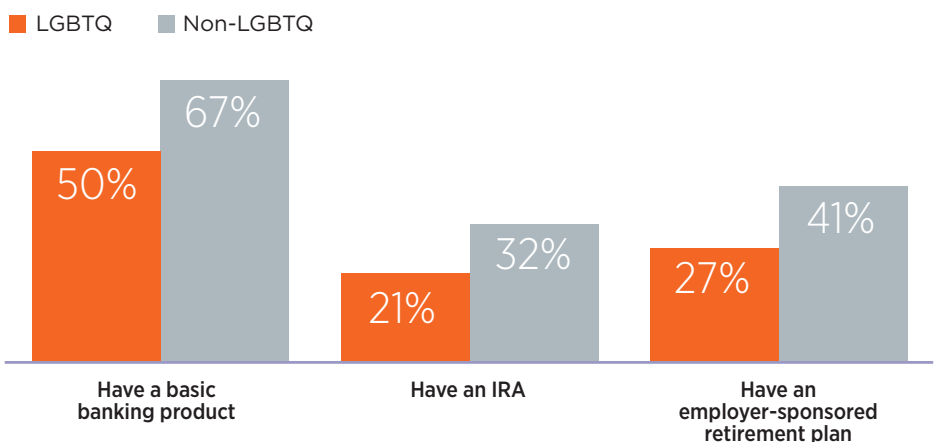
The figures raise an important question: Why do LGBTQ investors appear to invest less? One reason may be a lack of confidence, even among the younger cohort. Only about a quarter of gay Millennials view themselves as “knowledgeable” about investing, compared to one-third of straight Millennials.¹² Perhaps then it's no coincidence that, among gay Millennials and Gen-Xers, nearly 60% feel uncomfortable managing their investment portfolios compared to 40% of similarly aged straight investors.¹³ And although 76% of all investors want to be financially independent later in life, only 25% of the LGBTQ community feels confident they'll be able to achieve that goal (compared to 35% of straight investors).¹⁴

While confidence may be an issue among LGBTQ investors, awareness of the importance of investing is not; recent respondents said that they should be setting aside 35% of their income in retirement, investment, and cash accounts, compared to the 20% they actually do.¹⁵ Of those who do not, a stunning 62% of LGBTQ respondents said they are not currently saving for retirement in any way. This compares with only 49% of non-LGBTQ respondents. The net result is that 55% of LGBTQ respondents had saved nothing for retirement, compared with 42% of non-LGBTQ respondents.¹⁶

Could saving and spending translate into more financial confidence?

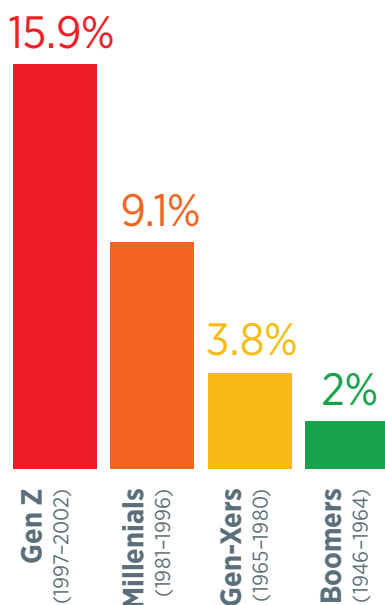
Perhaps. The MassMutual LGBTQ Retirement Savings Risk Study, which surveyed pre-retirees and retirees, said that compared to the general population, LGBTQ respondents are more likely to agree their retirement income will last as long as they

Financial product ownership¹⁷



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Identify as LGBT²⁰



Source: 2020 Gallup poll update (“Q” cohort not included).

live (71% vs. 65%); are more likely to take more risk than they should when investing (31% vs. 22%); plan to retire later (in 11 to 15 years—62% vs. 49%); are also less likely to seek advice from a professional advisor (44% vs. 35%); and are more likely to be advised to change their investment mix as retirement approaches (62% vs. 49%).¹⁸

But a survey on LGBTQ financial planning noted that 44% of LGBTQ respondents said they struggle to maintain adequate savings vs. 38% of the general population, with 53% of LGBTQ respondents in the 25–34 age range saying this. Forty-nine percent of the 25–34 year olds also reported having bad spending habits.¹⁹

Moms, dads, and money

A potential connection between a reduced focus on investing and saving for retirement may be related to the fact that fewer in the LGBTQ community are parents. Nearly 15% of the 1.1 million individuals who were part of a same-sex couple in the U.S. in 2019 had at least one child under 18 in their household, compared to 37.8% of opposite-sex couples, according to a U.S. Census Bureau 2020 analysis of Current Population Survey data. Along similar lines, same-sex couples also tended to have smaller families. Among couples with children, 54.7% of same-sex couples only had one child, compared with 39.2% of opposite-sex couples.²¹ This may be a contributing factor as to why in a recent survey 34% of LGBTQ respondents said they have bad spending habits that they’d like to improve or change vs. 28% of the general population.²² It could also help explain why 48% of those LGBTQ surveyed said they struggle to maintain savings compared to 38% of the general population; the LGBTQ respondents estimated they devote 16% of monthly income to discretionary spending, but just 11% to saving or investment.²³

How the LGBTQ movement is shaping the financial world

While the courts have played a significant role in advancing LGBTQ equality, there’s a case to be made that corporate America has been the community’s longest and strongest ally.

One of the chief reasons could be the emergence of openly LGBTQ CEOs, some of whom are among the world’s best-known and wealthiest business leaders. Five of the richest LGBTQ people in the world now have a combined net worth of more than \$30 billion, led by David Geffen (\$9.9 billion) and Giorgio Armani (\$8.9 billion).²⁴ (A relative pauper, Apple CEO Tim Cook—the first chief executive of a Fortune 500 company to publicly come out as gay in 2014—has a net worth of \$1.3 billion, but the company he helms has a market value of \$2.1 trillion.)²⁵

Yet it’s in everyday corporate life that support for the LGBTQ community may be the most pronounced—and may have the longest-lasting impact. Supporting LGBTQ rights in the workplace has helped companies attract and retain key talent—and also investment dollars. In fact, recent research has revealed that investing in businesses that have LGBTQ-friendly employee policies does not lead

to sacrifices in investment returns. Other analysts postulate pro-LGBTQ companies may also outperform their industry competition over the long term.²⁶

Investors seeking return from pro-LGBTQ companies are turning to the ethical impact ethos of the environmental, social, and governance (ESG) investing approach. In doing so, these investors are buying stock in pro-LGBTQ companies, investing in LGBTQ-oriented mutual funds, making direct investment in LGBTQ-owned startups, and even exerting influence on companies doing business in states that seek to counter progress for the LGBTQ community through religious freedom laws.

One UHNW group that is making direct investments in LGBTQ-owned startups is AngelList Venture, which funded 2,698 startups in 2020 and supports over \$3 billion in assets under management.²⁷ Gaingels, another angel investment group characterizing itself as a “profits-focused, mission-based affinity organization” features greater than 1000 members now, 300+ investments in 2020, more than \$200 million invested since January 2019, and over \$1 billion in funding raised in 2020.²⁸

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How partnering with an advisor may help LGBTQ investors

Recalling José's statement from the introduction of this paper—"I'm not a gay investor. I'm just an investor like anyone else, with my own questions and my own goals"—may be an indication of how much financial life has evolved for LGBTQ investors in the few years since the Windsor and Obergefell rulings.

History will look back at this time as a defining era for the LGBTQ community. Marriage equality and expanded workplace protections have changed lives in profoundly important ways; the next frontier for the LGBTQ population may be striving to seize greater financial opportunity through increased confidence. A first step may be to consider building a comprehensive investment strategy for today's markets and tomorrow's goals based on:

- **Assessing risk tolerance:** Financial advisors may work closely with each client to assess his or her risk tolerance—that is, how much portfolio fluctuation each investor is prepared to accept over shorter periods. As a result, they can recommend a portfolio mix that aligns with each investor's unique comfort level. But in addition to volatility, another important factor is the potential for drawdown—the peak-to-trough drop in asset values over an extended period. Considering that retirement can now last 30 years or more, it's important to focus on drawdown risk.
- **Framing needs and goals:** Advisors can help clients identify short-, medium-, and long-term goals for portfolio growth and income, assessing income and liquidity needs before and during retirement. Even investors who prefer that their advisors manage their portfolios for them are encouraged to be involved in determining their overall goals, as well as understanding how their wealth is managed to achieve those goals.
- **Creating an investment blueprint:** Financial advisors often codify a client's goals in a written wealth management plan. Portfolio holdings should align with risk and return parameters and should work in concert with one's overarching wealth goals.
- **Revisiting and reviewing:** Events like marriage or divorce, a new baby, a death in the family, retirement, or the sale of a business can impact investment goals. When there are significant life events, an advisor should review and perhaps even rebalance wealth plans and portfolios, respectively. But even in the absence of such events, periodic check-ins are important to help keep plans and portfolios current with risk levels and on track to meet goals—whether they stay the same or evolve over time.

If the U.S. LGBTQ population were a state, it would rank 5th between New York and Pennsylvania.²⁹

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For clients with complex portfolios or sophisticated wealth management issues like estate planning, business succession, or charitable planning, Wilmington Trust suggests consulting with tax and legal advisors that specialize in these areas. Our financial advisors cannot provide tax or legal guidance; however, they can refer clients to experienced professionals or work closely with outside counsel.

It's a vastly different world for the LGBTQ community than even just a decade ago. The courts, corporations, and society as a whole are embracing the ideal of equality for all—regardless of who you love or your sexual identification. With all the progress that's been made, now is the time to take advantage of market opportunities so you can pursue the goals that matter most. Consider reaching out to an advisor today.

ENDNOTES

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