Why are LGBTQ+ investors different?

Global financial markets

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- LGBTQ+ investors may need to invest differently because full legal and social equality does not exist *anywhere* in the world.
- In this paper, we examine how LGBTQ+ people can build investment strategies to help meet their financial goals.
- We look at a number of factors and the implications for LGBTQ+ investors. These factors are the family, job security, urban living, healthcare, longevity, and investing with values in mind.


Source: Getty Images.

The obvious question when writing about LGBTQ+ investment is why the LGBTQ+ community would need to invest differently from the cis-gendered heterosexual community? The answer is that full legal and social equality does not exist *anywhere* in the world.

When different groups face different social or legal environments, they need to invest differently to deal with the challenges that they face. While the main concerns of investors are the same, regardless of gender or sexual orientation, LGBTQ+ investors are likely to have different needs and challenges. The prejudice that the LGBTQ+ community faces also means that investment decisions by the community and allies are potentially more powerful in their impact.

The family

With racial, gender or religious prejudice, victims can often find support from family members who suffer the same persecution. This is less likely to be true with sexuality prejudice. For some LGBTQ+ people it is members of their own family who are the loudest persecutors. Prejudice from within the family means that LGBTQ+ youth are more than twice as likely to be homeless as heterosexual youth.[1] That can create financial insecurity and a legacy of debt which must be managed.

In a less extreme example, LGBTQ+ people may find themselves disinherited, or unable to rely on family for financial support. That may stop LGBTQ+ people setting up their own business; family funding is the largest single source of investment for entrepreneurs.[2] The "safety net" of having a family that can offer financial support in the event of failure is also important. It is easier to take risks if there is a home to go back to. Mistakes are a lot more costly for those who must be self-sufficient.

Source: Getty Images.

Investment implications:

The emotional and financial pressures of family estrangement could increase the importance of a robust investment plan to meet needs and goals.

The UBS Wealth Way approach starts with a deep understanding of your values and what you want to accomplish, which helps us to organize your financial life into three purpose-built strategies: Liquidity—to help provide cash flow for short-term expenses, Longevity—for longer-term needs, and Legacy—for needs that go beyond your own.

LGBTQ+ investors may be forced to become financially independent sooner than others. Building a sufficiently large Liquidity strategy to cover your day-to-day expenses may therefore be important. If you are in your working years, your salary will generally cover most day-to-day expenses, but we generally recommend setting aside 6 to 12 months of spending to guard against the risk of a job loss or unexpected expenses.

You can fund your Liquidity strategy with low-risk investments such as cash and high-quality bonds, or you can set aside borrowing capacity. If you are saddled with debt—whether to pay for housing, fund education, or start your own business—it can take longer to save enough to build this "rainy day" fund. We generally recommend that you prioritize servicing and repaying debt over accumulating low-yielding assets, especially in your early years.

For retirees, we generally recommend setting aside additional resources—enough to meet the next three to five years of spending needs—to replace the income from their salary, help manage the risk of unexpected expenses, and to provide a buffer against the risk that market disruptions might force them to lock in otherwise-temporary portfolio losses.

When an LGBTQ+ investor begins to accumulate Liquidity assets, it can make sense to think of these assets in three tiers.

The first tier—everyday cash—might be earmarked for day-to-day expenses and unforeseen costs over the next 6-12 months. You may need to access these funds without notice, so we generally recommend keeping them in cash or other highly liquid cash alternatives; even if this means accepting a low or even negative return, having access to these funds will help you avoid liquidity issues.

The second tier—savings cash—can be set aside for known expenses in the near future. For these assets, capital preservation is still paramount, but you may want to consider savings accounts or money market funds, which can help to provide a slightly higher rate of return, in exchange for slightly less liquidity.

The third tier—investment cash—could be deployed in two to five years' time for spending. Investors might commit this money to investments with some interest rate (duration), credit, or liquidity risk in exchange for potential returns that exceed the rate of inflation (positive real returns).

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. Strategies that UBS Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

We generally recommend duration risk over credit risk, because these assets will usually be tapped into during a bear market, when interest rates are falling, and credit risks are rising. Borrowing strategies can also be effective for this third tier, especially when investors face low or even negative interest rates.

Please click here to explore how to manage a Liquidity strategy in a low or negative interest rate environment.

Job security

In many countries around the world LGBTQ+ people can lose their jobs because of their relationships. Even where there is legal protection, social prejudice may damage job security for the LGBTQ+ community. In the US, around half the LGBTQ+ community dare not be honest about their sexuality at work.[3] For the UK that number is over a third.[4] The urge to hide comes from a fear of persecution or exclusion, even if the law says such persecution is illegal. Those who do hide their sexuality at work are still subject to persecution, as they must spend time and effort hiding who they are. The stress of this may lead to underperformance. Underperformance may lead to lost opportunity. And both these consequences of persecution may indirectly impact job security.

Being LGBTQ+ means that there are fewer employment opportunities. Almost seventy countries criminalize the LGBTQ+ community in some way[5], and most countries do not have marriage equality or offer legal employment protection to LGBTQ+ people. Relocating to accept a job offer in such a country is unlikely to be an attractive option for an out member of the LGBTQ+ community. Economically, the LGBTQ+ population live in a smaller world with fewer opportunities than exist for the non-LGBTQ+ population.

Source: Getty Images.

Investment implications:

A lack of job security can place emotional and financial pressure on an LGBTQ+ investor.

Job insecurity may have material implications for other parts of a wealth management strategy. LGBTQ+ employees subject to job insecurity and prejudice may not be able to accrue retirement savings in the same way as others can. Broken employment may mean you have fewer employer retirement contributions. More regular job switching to avoid discrimination may mean that you have a greater number of retirement savings vehicles, making their management more difficult.

We recommend that LGBTQ+ investors manage their Longevity strategy assets—the resources that they've saved for financing their retirement—holistically to get the most out of each account type and build a comprehensive investment strategy that's purpose-built to replace their salaries in retirement. You may find it helpful to consolidate multiple retirement accounts together in one place, in order to manage them more effectively. While savings and investment vehicles differ by jurisdiction, there are generally several means to save for retirement in a tax-efficient way outside of a pension, 401(k), IRA or equivalent. We recommend contributing to a variety of account types—for example tax-deferred accounts such as a Traditional IRA, tax-exempt accounts such as a Roth IRA, and taxable investment accounts—in order to manage taxes throughout your working years and in retirement.

Please click here to explore investment implications of job insecurity in more detail.

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Urban living

In theory, the LGBTQ+ community should be evenly distributed across a country at birth. As the LGBTQ+ community (including those who are not out) is around 10% of the population, they are a clear minority. There is evidence that members of the LGBTQ+ community tend to move to urban areas, to be with other LGBTQ+ people.[6] This should not be taken too far—there are LGBTQ+ people in rural communities, of course—but there is a bias to living in bigger cities. This is particularly true of young LGBTQ+ adults.

Urban areas have a higher cost of living than rural areas. If young LGBTQ+ adults are more likely to live in urban areas and face this higher living cost, they are less likely to be able to build savings than are their non-LGBTQ+ peers. The failure to accumulate savings early in life can put LGBTQ+ people at a disadvantage as investors.

Evidence from the US using data from 1990 to 2015 suggests that same-sex couples looking to take out a mortgage have a smaller deposit saved than do opposite sex couples. After controlling for that difference, same sex couples are less likely to have a mortgage approved, and more likely to pay a higher borrowing cost[7].

The tendency to move location, and possible prejudice in lending, mean that in the US home ownership amongst the LGBTQ+ community is significantly lower than for the average population. In the US, fewer than half of LGBTQ+ people owned a home, compared to the national average of around two thirds of the population.[8] Real estate is normally the single most valuable asset a person owns. Not owning real estate may reduce access to low-cost credit (as securitised borrowing is less likely).

Source: Getty Images.

Investment implications:

The higher costs of urban living and relative difficulties in buying a house may have implications for LGBTQ+ investors.

To the extent that you face higher urban living costs, you may have lower disposable incomes than others and find it harder to save. LGBTQ+ investors that are estranged from their families often lack a valuable safety net, because they can't fall back on their family for shelter or financial help.

Because of these challenges, it is even more important for you to develop a holistic financial plan and build a Liquidity strategy to protect against the risk of a job loss, and to provide a cushion against unexpected expenses such as healthcare or maintenance costs.

LGBTQ+ investors with a tendency toward urban living will often find it more difficult to save enough assets for homeownership. Renting can provide you advantages, such as greater flexibility in moving to find better work and the ability to more easily "up-size" when your family expands. On the other hand, you are exposed to the risk of rising housing costs and if you lack the means to invest in a primary residence, you could lose access to a popular (and often tax-advantaged) savings vehicle, as well as an asset that often qualifies as collateral for low-cost borrowing strategies.

If buying a home isn't an option for you or is less attractive than renting given your personal circumstances, you may need to adjust your retirement savings strategy. Many forms of financial planning assume that housing costs will be substantially lower in retirement—as happens when a mortgage has been paid off. In order to finance higher retirement expenses as a result of rental payments in retirement, LGBTQ+ investors that aren't putting money into a home might plan to invest more into their Longevity strategy investment accounts.

Borrowing strategies can be a valuable resource when used prudently and can be an especially effective resource in an environment of low interest rates. Untapped borrowing capacity can be earmarked as funding for your Liquidity strategy, or you can tap into loans to apply portfolio leverage to Longevity and Legacy strategy assets to enhance their return potential. If you don't have a home that might be used as collateral, you could consider setting up a loan that is secured by your marketable securities.

Please click here to explore how borrowing strategies can help you to meet your goals.

Strategies are subject to individual client goals, objectives and suitability.

Entrepreneurialism in the LGBTQ+ community

The pandemic has led to a boom in entrepreneurialism. The growth in business start-ups has been extremely strong in many major economies. In the US, business formation is growing at well over 20% yoy according to the US Bureau of Census. Structurally this may represent a reversion to more traditional patterns of personal income—where individuals have a portfolio of income streams that include self-employment as an entrepreneur, even if the largest share of the income portfolio comes from paid employment from a single employer.

The LGBTQ+ community may be at a disadvantage if entrepreneurship as a means of making multiple income streams becomes part of the new normal. LGBTQ+ entrepreneurs may find it more difficult to raise capital for their businesses, either because they are more likely to be estranged from their families (a source of capital), or because they are less likely to be homeowners (a security for borrowing). We know from gender-based studies that investing in a group that has unequal access to capital is likely to produce better returns on investment.[9]

Healthcare

Members of the LGBTQ+ community are likely to face higher healthcare costs over time. Even socialized medicine tends to be focused on the problems of the non-LGBTQ+ majority. Trans people can face considerable healthcare charges over the course of their lives—both in terms of treatments, and perhaps also in having to travel to find medical professionals who are able or willing to help them. Members of the LGBTQ + community, who wish to become parents, are likely to face additional costs for IVF treatments or surrogacy.

In addition, the instance of mental health issues in the LGBTQ+ community is significantly higher than in the heterosexual population. Prejudice, bullying, or internalized homophobia do a lot of mental damage, often with considerable treatment costs.

Employer healthcare benefits often extend to an employee's partner. This is less likely to be the case with LGBTQ+ people where there is no marriage equality (or of course where being LGBTQ+ is criminalized). This may place an additional financial burden on an LGBTQ+ family.

Investment implications:

LGBTQ+ investors might begin by anticipating or planning for healthcare expenditures they are likely to incur through their lives, then to consider how payment might be covered —whether by the public purse, through health insurance, or out of pocket.

For most of our lives, the most valuable asset on our balance sheet is "human capital"—the skills and knowledge that we will be able to use to earn income in the future. Over time, we convert human capital into financial capital through work. In this context, your health—both physical and mental health—is a vital asset on your personal balance sheet, worthy of investment and protection.

You should consider near-term out-of-pocket health expenditures, and premiums for any private medical insurance or employee-provided health benefits, when determining the size of your Liquidity strategy.

For longer-term healthcare expenses, LGBTQ+ investors should consider the potential costs of long-term care—in the home or outside it—when determining how much they need to fund their Longevity strategy. An analysis of US household spending by age finds that household outgoings on healthcare stays roughly constant between the ages of 60 and 80, but can rise to 1.8x the levels of a 60-year-old person by age 100.[10] You might consider whether your employer health benefits will continue beyond retirement, or whether you might need to set aside funds to continue such coverage. Depending on jurisdiction, it may make sense to consider healthcare and long-term care needs separately, since long-term care expenses can often exceed the coverage of traditional healthcare insurance.

Please see here for more details on healthcare spending in retirement for US individuals.

Strategies are subject to individual client goals, objectives and suitability.

Longevity

Life expectancy and longevity has a major impact on the success of a Longevity (or retirement) strategy. So too does joint financial planning, in particular the ability to pass assets smoothly between spouses or partners. LGBTQ+ investors may have to think particularly carefully about both aspects.

First, LGBTQ+ individuals have different demographic profiles to other parts of the population. Same-sex female couples have a higher likelihood of living longer than others. US data from 2018 found that a 45-year-old opposite-sex couple had a median joint life expectancy of 88.5 years, versus 90.5 years and 87 years for same-sex female and male couples.

Median joint life expectancy (the point at which half the population has died) can cloud the true extent of living beyond one's financial provision—longevity risk. The same data suggests a quarter of female couples can expect at least one member to live to 95 and one in twenty can expect a centenarian partner.[11]

A second consideration for LGBTQ+ retirees is what happens to their retirement assets after death. Many countries do not offer legal recognition to pension assets passing to spouses, civil partners, or registered partners. Survivors' rights may be restricted or limited. A surviving LGBTQ+ partner may lose access to welfare benefits.

Source: Getty Images.

Investment implications:

Living for longer can have a major effect on the amount of wealth you need to set aside to finance your Longevity strategy assets.

Basic modeling suggests that a 65-year-old heterosexual couple may need around 17 times their annual spending to finance 20 years of retirement spending (from age 65 to 85). For a 65-year-old LGBTQ+ couple—especially a same-sex female couple—longer life expectancies may mean that this time horizon is too short. Introducing a buffer of an additional 10 years in retirement—30 years of retirement spending—would push up the required assets to 22 times annual spending. Setting aside enough money for a 35-year retirement—perhaps as insurance against one or both partners reaching age 100—would require around 25 times annual spending.

The primary objective of your Longevity strategy is to finance your lifestyle in retirement, allowing you to retire on time with confidence that your retirement savings assets will last your lifetime. To account for longer life expectancies, LGBTQ + investors should aim to build a robust but flexible financial plan; save as much as they can for retirement, as early as they can; and pursue a well-diversified investment approach that balances growth potential in working years against shortfall risk over an extended retirement.

Equally, LGBTQ+ investors may need to consider alternative forms of retirement to "traditional" linear career paths. Staggered retirement to include a period of part-time or contracting work could help you smooth income and preserve savings in the first years of retirement. If you are in a marriage or partnership, you might consider how to split assets between you to best utilize any tax-advantaged pension saving.

When considering the possibility of long-term care, it is worth remembering the urban living affinity favored by the LGBTQ+ community as previously discussed. In many jurisdictions home equity is an important source of funds to pay for in-home or residential care in later years. LGBTQ + renters in cities or towns may not have this resource available to them. The relative costs of old-age care in urban environments relative to the countryside might also be higher. Putting in place a well-funded and flexible retirement plan, potentially including other instruments to expressly pay for long-term care, may help you secure your preferred lifestyle retirement and remain in cities.

Legal inequalities may also increase the benefit of making formal plans for beyond your lifetime. Wills, trusts, expressions of wishes, and powers of attorney can all help to ensure that partners inherit each other's financial assets and have the authority to make financial decisions in case of ill-health or incapacity.

Strategies are subject to individual client goals, objectives and suitability.

Investing with values in mind

Investors want to have investments that fit with the values that they hold. The rise of sustainable and impact investing is a key part of this.

The LGBTQ+ community may choose to align their financial decision-making with their values around equality for LGBTQ+ people. Different investors may choose to reflect their values in different ways. Some LGBTQ+ investors may decide to exclude investments in companies that have a poor track record on LGBTQ+ rights and equality. Such a signaling effect, however, is unlikely to drive major corporate change as individual investors will not have the size (as a share of total share or bond capital) or influence needed. Other sustainable and impact investment approaches might deliver both superior financial and social returns to an exclusion approach.

Aligning investments with values can also extend to building a financial legacy. LGBTQ+ investors may want financial resources surplus to their lifetime needs to be used in support of LGBTQ+ causes. Some may choose philanthropic causes that support environmental and social causes, including LGBTQ+ rights. Others may elect to build a financial portfolio that invests sustainably or impactfully with the aim of maximizing financial and social returns.

Investing is about more than personal financial goals. LGBTQ + individuals may invest their human capital and time into supporting LGBTQ+ causes, whether through volunteering, mentoring, or bringing relevant skills to LGBTQ+ businesses. Linking LGBTQ+ investors to businesses through networks can help connect people for a better world, in terms of greater equality of opportunity, potential access to pools of private capital, and to learn best practices for starting and running a successful business.

Investment implications:

There are a wide range of approaches to allow LGBTQ+ investors to match their investments with their values.

Some approaches signal an investor's approval or disapproval of a particular way of doing business. Exclusion approaches could eschew stocks and bonds of firms whose environmental and social policies do not match an investor's affinities. Inclusion strategies seek to invest in companies whose environmental, social, and corporate governance

(ESG) characteristics align with an investor's values. There is limited evidence that exclusion leads to higher financial returns, though such an approach may help investors with risk mitigation. Inclusion strategies can help to increase financial performance. One such example is firms that have a superior track record on diversity, equity, and inclusion may enjoy commercial benefits over their peers. Please click here to explore this topic in greater detail.

LGBTQ+ investors might consider longer-term thematic investments that align with their values. Themes may match your general affinities toward environmental factors such as clean energy and greentech, or social factors such as education services. Themes could be chosen because they match LGBTQ+ challenges, like investing in retirement living that is inclusive for the LGBTQ+ community.

Other investment approaches that have the potential to deliver commercial and environmental or social returns include impact investing. Such investments seek to deliver demonstrable and material improvements in social or environmental outcomes in ways that also improve financial performance, such as higher revenues, reduced costs, or increased efficiencies.

In a UBS Wealth Way approach, sustainable and impact investing may be particularly interesting for your Legacy strategy. These funds are earmarked for use beyond your lifetime. The long investment time horizon and your potential desire to leave the world a better place may mean this strategy can be filled with longer-term, less liquid, but potentially higher return potential investments such as private markets.

Please click here to explore private markets within the UBS Wealth Way.

Strategies are subject to individual client goals, objectives and suitability.

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Appendix

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