

## LGBTQ Investors

Granted equality. Seeking opportunity.

More than 11 million LGBTQ people in the U.S. today exert social, demographic, and economic influence like never before.

4.5%  
of U.S. population<sup>1</sup>

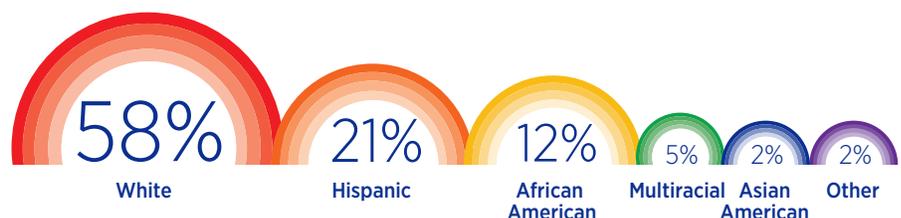
\$917 billion<sup>2</sup>  
purchasing power

**“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 U.S. Supreme Court 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 like anyone else, with my own questions and my own goals.”**

José is just one of more than 11 million LGBTQ people in the U.S. today (4.5% of the population)<sup>1</sup> who now exert social, demographic, and economic influence like never before. According to recent estimates, the annual purchasing power of the LGBTQ community is \$917 billion—slightly less than Hispanics (\$1.3 trillion) and African Americans (\$1.2 trillion), but greater than Asian Americans (\$825 billion).<sup>2</sup> Globally, LGBTQ consumers are spending in excess of \$3.7 trillion, and their estimated household wealth worldwide is \$5 trillion.<sup>3</sup>

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.<sup>4</sup> 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 numbers<sup>5</sup>



Continued

## The road to marriage equality

● **1989**

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

● **1996**

Defense of Marriage Act (DOMA) passed 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.

### 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 two most significant LGBTQ events of the past decade: rulings by the United States Supreme Court in 2013's *United States v. Windsor* and 2015's *Obergefell v. Hodges*.

*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 between one man and one woman. In a 5-4 decision, the high court determined that DOMA violated the 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 United States.

These were watershed moments for the LGBTQ community and the nation. Since *Obergefell*, approximately 150,000 same-sex couples have married, bringing the total number of same-sex couples to 1.1 million nationwide.<sup>6</sup> Meanwhile, national acceptance of same-sex marriage has risen nearly 60% in the last 15 years.<sup>7</sup>

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.

### Acceptance of same-sex marriage in America<sup>7</sup>

**1.1 million**  
same-sex married  
couples nationwide



Continued

“*Windsor* and *Obergefell* have made financial planning for high-net-worth gay couples virtually the same as for straight clients. It’s all become much easier,” says Bruce Hoffmeister, Wealth Strategist for Wilmington Trust. And according to a recent survey, 49% of LGBTQ investors agree that financial life has become less complicated thanks to the court’s decisions, up from just 13% in 2012.<sup>8</sup>

**Has greater simplicity translated into greater LGBTQ investor confidence?**

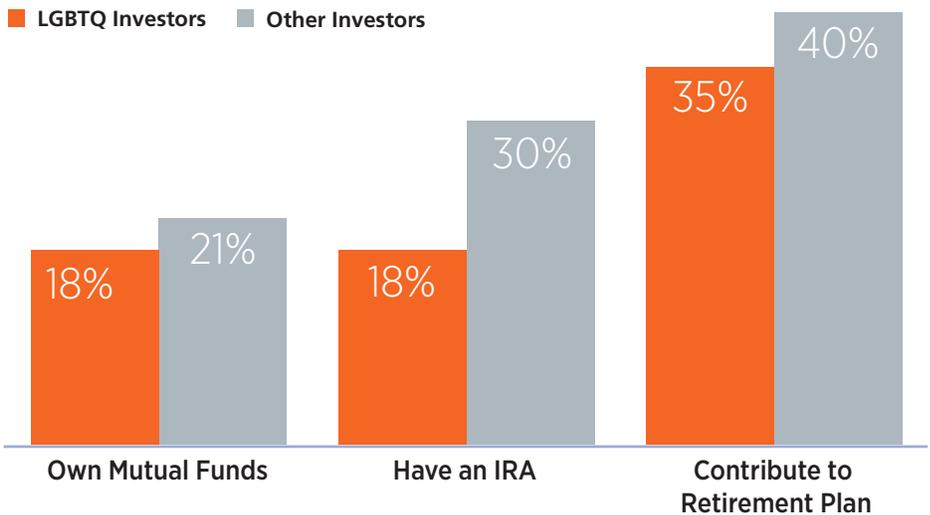
The answer may depend on which segment of the LGBTQ community you ask. In a recent study comparing the retirement, investment, and savings rates of the LGBTQ community with those of the general population, LGBTQ adults lagged behind their straight counterparts (setting aside 20% of total income vs. 25% for other investors).<sup>9</sup> And when looking at ownership of different investment products, the LGBTQ community also trails the general population across the board:<sup>10</sup>

This raises an important question: why do LGBTQ investors invest less? One reason may be a lack of confidence; just 15% consider themselves to be knowledgeable about financial products and investments compared to 21% of other investors.<sup>11</sup> Among LGBTQ Millennials and Gen-Xers, nearly 60% feel uncomfortable managing their investment portfolios compared to 40% of similarly-aged straight investors.<sup>12</sup> 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).<sup>13</sup>

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.<sup>14</sup>

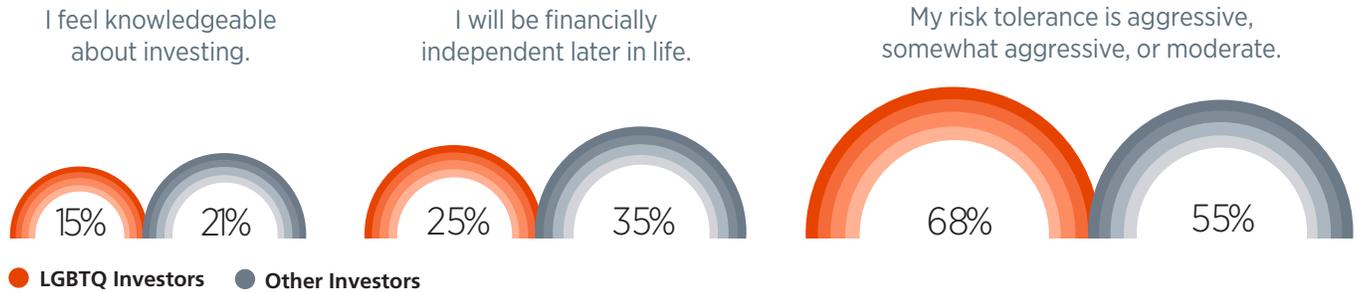
Figure 1

**Investment product ownership**



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## What investors are thinking



## Identify as LGBTQ<sup>5</sup>

8.2% of Millennials

3.5% of Gen-Xers

2.4% of Baby Boomers

### Could more wealth translate into more investment confidence?

Perhaps. A 2013 study indicated that 68% of LGBTQ investors with at least \$250,000 in investible assets rated their risk tolerance as aggressive, somewhat aggressive, or moderate, compared to just 55% of other investors. That same study also revealed that 59% of LGBTQ investors were extremely or very confident about achieving their financial goals vs. 52% of other investors.<sup>15</sup>

But another study of UHNW LGBTQ investors—this one conducted in 2014—seemed to offer somewhat contradictory evidence. Just 20% of those UHNW LGBTQ respondents considered themselves to be knowledgeable about financial products and investments—just slightly better than the 15% cited above for all LGBTQ investors—and well below the 41% of other UHNW investors who consider themselves to be knowledgeable.<sup>16</sup>

“One thing about my LGBTQ clients is that they tend to spend more than other clients,” notes Hoffmeister. “Many of them don’t have children, so they don’t have the financial obligations of being parents.” Research seems to support Hoffmeister’s observation. Only 29% of same-sex households have children under 18 years of age.<sup>17</sup> This may be a contributing factor as to why 48% of LGBTQ respondents in a recent study categorized themselves as “spenders” compared to just 32% of straight respondents.<sup>18</sup>

### How the LGBTQ movement is shaping the investment 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. There are now 10 openly LGBTQ billionaires holding a combined net worth of \$31 billion,<sup>19</sup> led by fashion designer Giorgio Armani with \$8.5 billion and producer-business magnate David Geffen with \$7.8 billion.<sup>20</sup>

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If the U.S. LGBTQ population were a state, it would rank 7<sup>th</sup> between Ohio and Georgia.

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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. More than 90% of Fortune 500 companies have adopted nondiscrimination policies protecting employee sexual orientation, and 83% protect gender identity or expression.<sup>21</sup> 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 which 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.<sup>22</sup>

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.

Among the UHNW investors who are making direct investments in LGBTQ-owned startups is the AngelList investor network and its “Gay and Lesbian Market Angel Investors” group. AngelList members invested \$156 million into 392 startups in the LGBTQ market.<sup>23</sup> Gaingels, another angel investment group characterizing itself as a “profits-focused, mission based affinity organization” features more than 80 individual investors who have directly invested over \$6 million into 30 pro-LGBTQ startups and eight venture capital funds since its 2014 inception. Gaingels-supported companies and venture capital funds have used this money to go on to raise an additional \$30 million in 2018 alone.<sup>24</sup>

#### **How Wilmington Trust can 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 short time since the Windsor and Obergefell rulings.

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Investing involves risks and you may incur a profit or loss. Past performance cannot guarantee future results. There is no assurance that any investment strategy will be successful.

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LGBTQ investors  
working **WITH**  
an advisor:

**\$346,000**

average in savings  
and investments

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LGBTQ investors  
working **WITHOUT**  
an advisor:

**\$95,000**

average in savings  
and investments

As recently as 2012, 63% of LGBTQ investors said they felt underserved by financial institutions, and only 52% said their advisors fully understood the financial challenges of same-sex couples at that time.<sup>25</sup> Five years later, those in the LGBTQ community working with financial advisors have an average of \$346,000 in savings and investments, compared with just \$95,000 for those working without an advisor. They're also 25% more likely to have IRAs or mutual funds than their non-advisor counterparts.<sup>26</sup>

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; we believe the next frontier is helping LGBTQ investors seize greater financial opportunity through increased confidence. That's why investment advisors at Wilmington Trust recommend LGBTQ clients consider building a comprehensive investment strategy for today's markets and tomorrow's goals based on:

- **Assessing risk tolerance:** Our investment advisors 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, our advisors can recommend a portfolio mix that aligns with each investor's unique comfort level. But in addition to volatility, our advisors also consider "drawdown," or the potential for significant capital loss over an extended period of time. Considering that retirement can now last 30 years or more, the importance of focusing on drawdown cannot be overstated—and it makes us unique in the wealth management industry.
- **Framing needs and goals:** Our advisors help their 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:** Our advisors then create an Investment Policy Statement, or IPS, laying out the plan to achieve client goals. The IPS is a carefully designed plan to diversify across asset classes, aligning with each client's risk and return parameters. An advisor then implements each client's IPS by choosing what he or she believes to be the most appropriate solutions.
- **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. Our investment advisors periodically review each client's IPS and long-term investment strategy to ensure the portfolio is on track to meet goals—whether they stay the same or evolve over time.

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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 investment 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 what your sexual identification is. 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 to you. Reach out to a Wilmington Trust Relationship Manager today.**

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## ENDNOTES

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