Global financial markets

Investing for LGBT+ persons

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- In a prior report, UBS Chief Investment Office (CIO) concluded that excluding people based on their sexual or gender orientation was bad for economic prosperity.
- This report explores how investors that do not identify as heterosexual (lesbian, gay, bisexual, and transgender investors or LGBT+ investors) may need a different wealth strategy to heterosexual investors.
- We examine the legal and demographic considerations for LGBT+ investors, then outline a flexible investment approach that can help LGBT+ investors to achieve their financial goals.

Source: UBS

In many countries a person's sexual and gender orientation influences how other individuals, firms, and the state treat them.

This research piece discusses how LGBT+ [1] individuals in some parts of the world are regarded differently than heterosexuals in the eyes of the law. These legal differences, alongside certain important demographic trends, must be considered in financial planning.

LGBT+ exclusion can hurt economies
The UBS Chief Investment Office (CIO) has previously found that LGBT+ individuals can face exclusion if people, companies, or countries make decisions or form opinions about them based on irrational ideas, not facts. [2]

We concluded that excluding LGBT+ individuals has negative economic consequences. For example, LGBT+ persons may be discouraged from discussing their gender or sexual orientation at work. Hiding or lying about an aspect of one's life on the job can create stress and lower productivity, ultimately leading to below-trend growth for the economy as a whole. Countries that exclude LGBT+ individuals may prevent global companies from moving talented LGBT+ employees to locations where they are most useful, reducing labor market flexibility and potential economic growth.

[1] In this report we define LGBT+ to mean lesbian, gay, bisexual, and transgender people, plus other gender and sexual orientation groups that would not identify as heterosexual.
[2] *Chief economist's comment: Pride and Prejudice, and Economists,* UBS Chief Investment Office GWM, 27 June 2018.

LGBT+ investors need flexible investment plans

Standard wealth management approaches that do not take into account different legal, demographic, and economic factors could increase the risk that LGBT+ individuals fail to achieve their financial goals.

We outline below a flexible wealth management approach, which we term the 3Ls framework (see end of report for more details), as a tool that can help all investors to achieve their goals and ambitions, regardless of their sexual or gender orientation.

Investment considerations for LGBT+ investors

All investors commit capital to financial markets with the aim of achieving financial and non-financial goals. These goals can range from having enough money for short-term expenditures to ensuring financial security for one's family or using wealth to deliver positive societal outcomes.

We identify legal differences between the treatment of LGBT+ investors and heterosexual ones. We analyze the impact of these differences on investment decisions and the likelihood of fulfilling financial goals.

LGBT+ investors and the law in various countries

The figure below offers an overview of some key legal positions facing LGBT+ individuals and couples in Switzerland, the UK, Singapore, Hong Kong, and the US.

Figure 1: LGBT+ investors and the law across countries
Summary table

	Switzerland	UK	Singapore	Hong Kong	United States
Are there anti-discrimination laws protecting LGBT+ persons?	Yes	Yes	No	No	Only in 20 of the 50 states
Can non-heterosexual couples marry?	No	Yes	No	No	Yes
Are other types of partnership for same-sex couples legally recognized?	Yes	Yes	No	No	Varies by state
Is a surviving same-sex partner eligible to their spouse's pension or other benefits in the event of death?	Yes	Yes	No	No	Yes
Do non-heterosexual spouses/partners have testamentary freedom and statutory inheritance rights?	Yes	Yes	N/A	N/A	Yes for spouses Depends on state for registered partners

Source: UBS. Simplified summary table for illustrative purposes only. Specific points of law may differ by country and state.

We can make several observations on the basis of our country analysis:

First, an absence of automatic legal rights for LGBT+ persons (or no legal recognition of same-sex relationships) may be overcome by explicit legal instruments.
For example, up-to-date wills, advance care directives, and trusts could be used to fulfil end-of-life and post-death financial and non-financial goals.

Second, LGBT+ marriage generally confers greater legal rights than other types of registered relationships (civil union or civil partnership). In jurisdictions where LGBT+ people can legally marry (the US and UK), legal rights are equivalent regardless of sexual or gender orientation.

This equivalence does not necessarily hold for others forms of legally recognised relationship (civil union or civil partnership).

Investment-relevant differences between LGBT+ and heterosexual investors

LGBT+ families must consider a variety of demographic, investment, and legal considerations when making financial plans.

We identify three key factors that LGBT+ individuals should consider when investing, outlining the potential implications for their overall wealth management strategy.

1. LGBT+ employees may face higher job risk than heterosexual employees

One major consideration of day-to-day financial planning concerns emergency funds. Investors most often size their contingency pot of cash or cash equivalents based on their expected income and outgoings over a given time frame. For many the biggest contribution to income is through employment (salary, bonus, or business dividends). Perceived job security can therefore have a major bearing on the amount of any emergency funds.

An analysis of our selected countries suggests that LGBT+ employees may enjoy less job security than heterosexuals do, if they work in a country where there are no anti-discrimination laws against dismissing a worker based on sexual or gender orientation. No anti-discrimination laws exist in Singapore and Hong Kong, nor in 30 states in the US. By contrast LGBT+ workers cannot be fired based on their sexual orientation or gender in Switzerland or the UK.

LGBT+ investors that work in countries with no anti-discrimination legislation may want to build up a greater amount of precautionary savings than heterosexual investors, in case their employment is terminated.

Within the 3Ls framework (see end of report for more details), this may equate to LGBT+ investors holding more funds in their Liquidity bucket than a heterosexual investor might. Assuming that total wealth is constant, placing a higher amount in the Liquidity bucket implies that less money can be dedicated to saving for retirement (Longevity bucket) or leaving a legacy after death (Legacy bucket).

2. Greater job insecurity and longer lifespans can affect LGBT+ couples' retirement plans

In the absence of anti-discrimination laws to stop employment termination due to sexual or gender orientation, LGBT+ individuals may have lower total employment income than heterosexual individuals over their lifetime. This would have major implications for retirement saving (the Longevity bucket of the 3Ls framework) and for legacy planning (the Legacy bucket of the 3Ls framework).

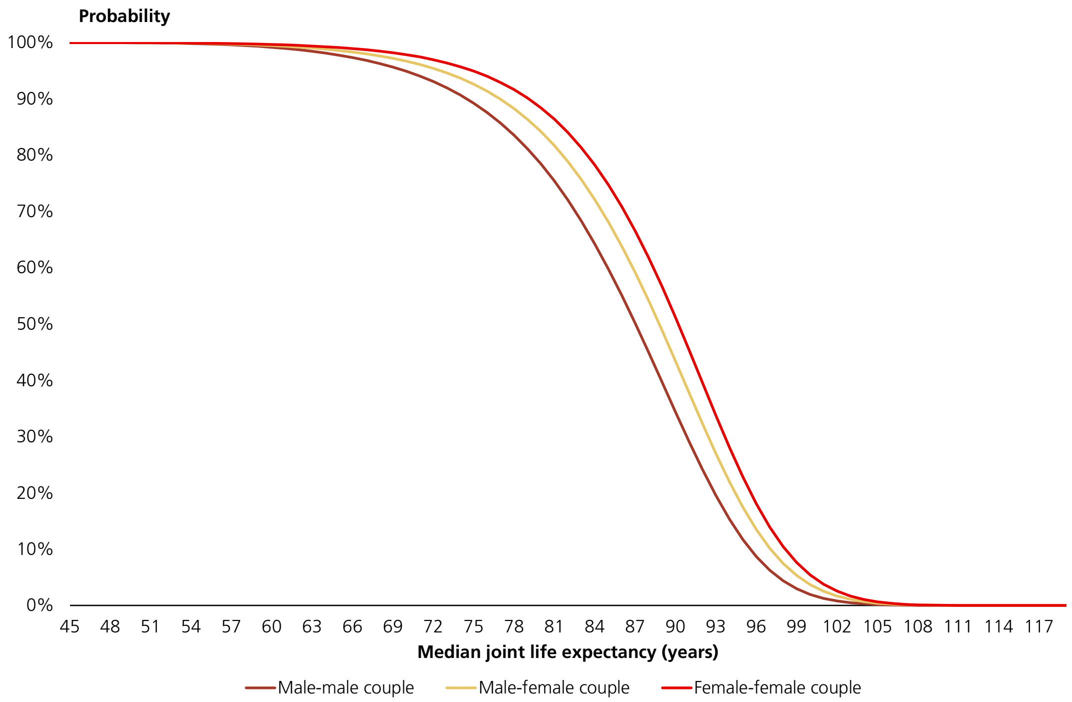
LGBT+ couples may also face the added challenge of depending more on their partners' financial resources than heterosexual couples do. This stems from the different demographic profiles of some LGBT+ couples.

Life expectancy is a key financial planning factor for LGBT+ couples. Currently, a 45-year old opposite-sex couple in the US has a median joint life expectancy of 88.5 years, compared to 90.5 years and 87 years for same-sex female and male couples respectively. Median life expectancy, the point at which half of the population will have died and half will still be living, can hide the full effect of longevity risk (Figure 2 shown overleaf).

US data suggests that around 25% of female couples should expect to have one partner or spouse live to 95 years of age, and 5% can expect one partner or spouse to live to 100 (Figure 3 shown overleaf).

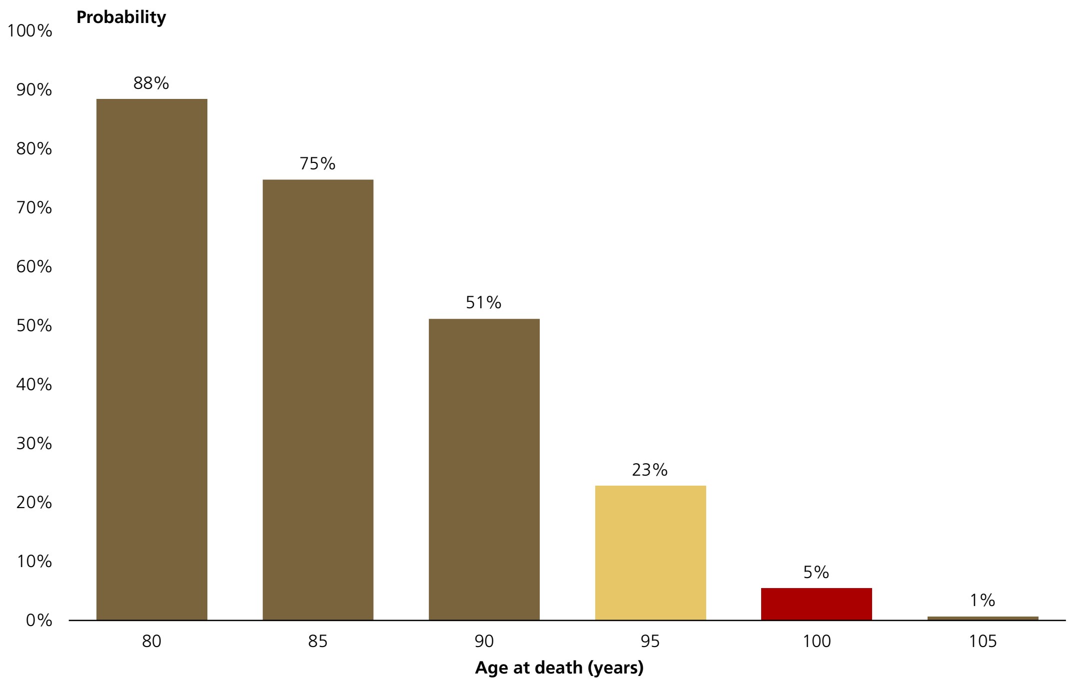
Same-sex female couples have a 50% greater likelihood of having one member live past the age of 100 than opposite-sex couples. And same-sex female couples are two to three times more likely to have one 100-year old member than same-sex male couples.

Figure 2: Investors should plan on living into their 90s
Probability of 45-year old people living to a specific age, for heterosexual and same-sex couples in the US



Source: US Social Security Administration, UBS.

Figure 3: Women, in particular, face longevity risk
Probability of longest-lived female partner living to a certain age in the US



Source: US Social Security Administration, UBS

Setting aside sufficient assets to sustain a retirement period of 35-40 years (instead of the more-commonly used 30-year planning horizon) may require considerable additional saving or investment growth. Basic calculations indicate that families would need to set aside over 50% more assets to plan to age 100 instead of 85 (Figure 4 shown below).

However, LGBT+ individuals may not be able to use pensions or traditional retirement vehicles as tools for a household Longevity strategy. For example, legal differences across countries mean that one member of an LGBT+ couple may not necessarily be eligible for survivor or pension benefits at the death of their spouse or partner.

UK law does allow same-sex married spouses or civil partners to receive survivor and pension benefits, and US federal law says that married same-sex couples have the same legal rights as married heterosexual couples in this regard. In Switzerland registered partners are eligible for survivor's pensions and welfare benefits regardless of sexual or gender orientation, but cohabiting couples are not. There is no legal survivors' eligibility for pension or welfare benefits for LGBT+ widows or widowers in Singapore or Hong Kong.

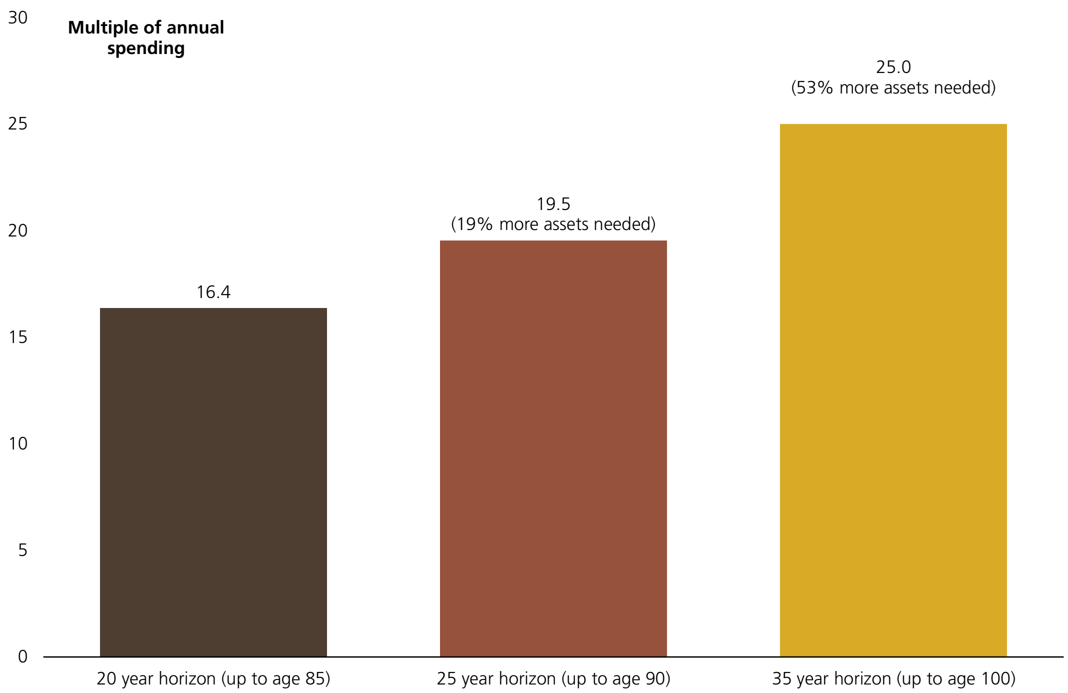
This highlights how crucial it is to fully understand the applicable inheritance and surviving partner benefits laws and create an appropriate financial plan.

3. LGBT+ couples may have fewer financial dependents overall than heterosexual couples

LGBT+ couples' family structures may differ from heterosexual couples'. These differences can have lasting implications for investment and wealth planning.

Evidence from the US suggests that same-sex couples are less likely to have children than opposite-sex couples (19% versus 40% respectively). Married LGBT+ couples in the country have the same adoption rights as married heterosexual couples, though LGBT+ couples in domestic partnerships or civil unions may face restrictions in some states due to marital status. Single LGBT+ individuals in the US generally have the same adoption rights as single heterosexual individuals, though laws do vary among states.

Figure 4: Longer planning horizons can require significantly more retirement assets
Asset needs for retirement as a multiple of annual spending



Source: Bloomberg Finance L.P., UBS.

At a global level LGBT+ couples may have fewer children than heterosexual couples due to different legal rights to adopt children. In the UK, the Adoption and Children Act 2002 gives LGBT+ couples the right to adopt children. In Switzerland, LGBT+ individuals can adopt children alone. Stepchild adoption is allowed for LGBT+ registered partners along the same laws as for heterosexual married couples. But joint adoption is restricted to married heterosexual couples. In Hong Kong same-sex couples cannot adopt children jointly but may adopt via a sole application. And in Singapore, a person who is neither a biological/adoptive parent nor a legal spouse of a biological parent can adopt a child, subject to the discretion of government officials and other entities.

For those LGBT+ investors who can legally adopt children, it is important to revisit financial plans as families add children to their households. Children – and the costs associated with raising them – are a key reason for the decline in mid-life savings rates (Figure 5 shown below). Investors should consider how expanding the size of their family may affect both near-term liquidity needs and long-term retirement plans.

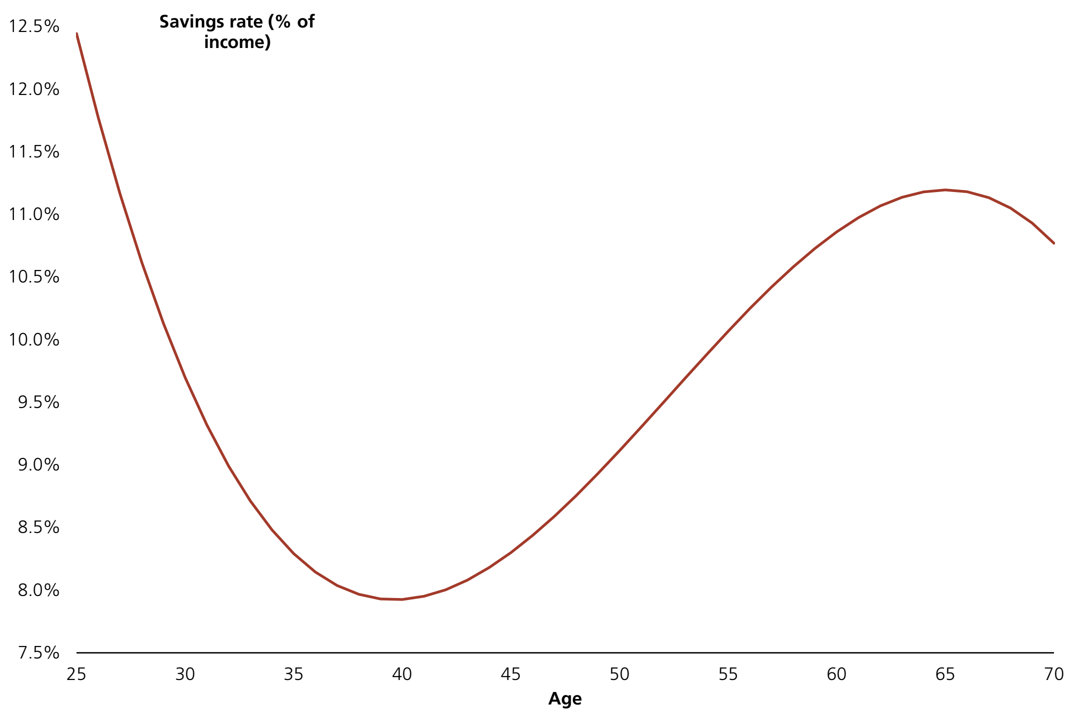
Legacy planning for same-sex couples can also follow a different path than for opposite-sex couples. Given the statistical evidence that US same-sex couples are half as likely to have children as heterosexual ones, LGBT+ investors' legacy plans should have specific guidelines with regard to the final distribution of their assets.

LGBT+ families' financial plans should be particularly attuned to the intestate succession laws of their country or state of residence. In countries that lack explicit laws on intestate succession for LGBT+ couples and formal recognition of their relationship (Singapore and Hong Kong) or whose legislation varies by state (for civil partners or non-registered LGBT+ relationships in the US), investors may have to pay particular attention to having wills, advance care directives, or trusts in place to ensure that their end-of-life and legacy wishes are met.

Generally all investors should consider regularly reviewing and revising their legacy planning to ensure it remains aligned with their financial objectives and with the law.

Figure 5: US savings rates fluctuate with age

Percentage of income saved by age



Source: Federal Reserve Survey of Consumer Finances, UBS

Conclusion

Sexual and gender orientation can have an impact on employment, investment decisions, and financial planning. LGBT+ individuals and couples may not be treated the same way as heterosexual individuals and couples, within countries and across them because of legal differences in various countries or states. Alternatively LGBT+ people may face exclusion based on their sexual and gender orientation at the individual, corporate, or country level.

However, legal differences and exclusionary behavior need not prevent LGBT+ investors from achieving their financial and life goals. LGBT+ investors can find investment strategies that help meet their liquidity needs, retirement goals, and legacy plans.

They can adopt inclusive approaches to manage their wealth that rely on careful consideration of legal differences, a flexible wealth management approach (such as the 3Ls framework), and a regular revision of family financial plans.

Inclusion of LGBT+ individuals has been empirically shown to boost economic prosperity. Financial firms that produce LGBT+ inclusive investment strategies can better serve their clients. And in an upcoming CIO report, we shall examine how LGBT+ inclusive policies affect corporate performance and profitability.

Acknowledgements:

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Appendix: so what is the 3Ls framework?

All investors can use a number of financial planning techniques to help achieve their goals. Financial planning for LGBT + persons must be flexible to account for a variety of family structures, as well as legal differences across countries.

The figure below provides an overview of the issues and planning that all LGBT+ investors should consider when developing their overall financial plans.

It informs a wealth management strategy built on the foundation of an investor's financial objectives.

The approach allocates family wealth into three strategies that UBS calls the 3Ls:

Liquidity: *Assets and resources in the Liquidity strategy are allocated to match expenditures to provide stable cash flow for the next two to five years.*

Longevity: *The Longevity strategy is sized to include all of the assets and resources the family plans to use for the rest of their lifetimes, which provides a clear picture of what future spending objectives will cost. It is also managed with that goal in mind – a well-diversified portfolio, but one with an eye to inflation and managing downside risk.*

Legacy: *Assets in excess of what family members need to meet their own lifetime objectives. The Legacy strategy clarifies what a family can earmark for improving the lives of others – either now or in the future. Portfolios in the Legacy strategy typically invest fairly aggressively since their time horizons are usually measured in decades, and might also include business interests, collectibles, charitable funds, or second homes.*

Figure 6: The 3Ls framework
An overview of the wealth planning issues for LGBT+ investors

Liquidity	Longevity	Legacy
Access to emergency savings	Retirement and longevity planning	Intestate succession and inheritance planning
Disability insurance planning	Pension and survivor benefits	Trust and estate planning
Retirement income planning	Liability planning and household borrowing	Educational planning
	Eligibility for domestic partner / spouse employment benefits	Life insurance
	Legal protections from sexual orientation harassment & discrimination	
	Rights and distribution of property upon divorce (particularly marital or community property)	
	Custody/visitation rights for children	
	Long term care planning, including legal rights to make healthcare decisions for partner	

Source: UBS. For illustrative purposes only.

Appendix