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White paper

# Special considerations for LGBTQ clients' financial futures

## Important distinctions that may impact financial planning

George W. Schein, JD
Technical Director, Advanced Consulting Group

In recent history, LGBTQ individuals have made significant gains in legal rights, most notably the right to marry. More recently, LGBTQ individuals gained federal protections against workplace discrimination under the Civil Rights Act of 1964, thanks to the United States Supreme Court's *Bostock v Clayton* decision, which was just issued on June 15, 2020.[1] These hard-fought rights and protections make it safer for more LGBTQ individuals to come "out of the closet" and for more young people to identify as LGBTQ. Financial professionals need to be ready to help these individuals plan for their financial futures. To do that well, it is important to be aware of some challenges faced by LGBTQ individuals that may impact their financial planning.

## Important differences to consider

**Impacts of discrimination**

Perhaps the most important thing to remember when working with LGBTQ clients is that they are likely to have experienced discrimination in one form or another in their lives, generally, and more specifically in the context of their careers. That history of discrimination affects them both personally and professionally. Up until the Supreme Court's *Bostock* decision, it was perfectly legal (at the federal level) to fire an employee simply for being (or being perceived as) a member of the LGBTQ community. In the majority of states (28, to be exact), there were no state-wide nondiscrimination laws that prevented this type of workplace discrimination. This historic lack of legal protections helps explain why four in ten LGBTQ employees are not "out" at work, and why five out of ten LGBTQ employees have experienced anti-LGBTQ comments at work.[2]

This historical discrimination, both in and out of the workplace, often leads to inconsistent employment histories and limited opportunities for career advancement. This in turn impacts their lifetime earnings potential. For example, lesbian women earn, on average, $5,855 less per year than heterosexual women ($45,606 vs $51,461); Gay men earn, on average, $26,533 less than heterosexual men ($56,936 vs $83,469).[3] This earnings disparity has a major negative impact on LGBTQ individuals' financial futures.

**Cost of living**

To limit exposure to discrimination, both in their personal and professional lives, there is a historical trend that LGBTQ individuals congregate together and find safety in numbers. In most cases, this occurs in higher-cost metro areas, often within high-cost states. These larger metropolitan cities often have their own city non-discrimination ordinances that offer protections in housing, employment, and essential services. These cities are also often within the minority of states that also have express state-wide anti-discrimination protections. The majority of these LGBTQ enclaves are on the east or west coast of the United States, where the cost of living is quite high, in comparison to national averages. This, in turn, impacts LGBTQ individuals' finances. They may have to spend a higher percentage of their income to live in a place where they feel safe.

**Marriage**
Thanks to the Supreme Court's *Windsor* and *Obergefell* in 2013 and 2015, respectively, same-gender couples now are entitled to the same 1,100+ legal benefits and protections that come along with marriage.[4] Even so, LGBTQ couples sometimes have different considerations when determining whether to marry at all.

Although marriage often comes with financial benefits for the parties involved, there are certain circumstances where exercising their right to marry may create negative financial implications. For starters, LGBTQ couples are less likely to have children and so it is more likely both members of the couple will work. When both parties work in highly paid jobs, they are more likely to fall victim to the "marriage penalty" under federal income tax law that imposes a higher income tax burden on them as a married couple.

Another consideration if children are involved is the impact of marriage on future federal student aid. If one member of the couple has a college-age child from a previous relationship, it may be better to delay any marriage, because once legally married, both incomes must be declared on the student's FAFSA form ("Free Application for Federal Student Aid"), and that may reduce how much financial aid the student receives.

**Children**
Some LGBTQ individuals also dream of starting a family. For them, the cost of becoming parents is likely to be much higher than for their heterosexual counterparts. Adoption, surrogacy, and various elements of reproductive technology are all expensive. Domestic adoption costs range from $20,000 to $40,000 or more, and international adoption costs often stretch beyond $50,000. These costs pale in comparison to the costs of surrogacy, which range from $60,000 on the low end to $150,000 and beyond.[5] Based on the wide range of costs of having children, helping LGBTQ clients financially prepare requires forethought and careful planning.

# Considerations for LGBTQ elders

**Social Security**
Financial professionals must also remember to discuss Social Security benefits tied to a current or previous marriage with LGBTQ clients as well. Not only because same-gender marriage is now legal, but also because some of these benefits may also apply to LGBTQ clients based on previous heterosexual marriages, even if the individual is now single.

For married individuals, spousal benefits allow a member of a couple to file for benefits based on their spouse's working record. Spousal benefits pay up to 50% of a spouse's Primary Insurance Amount ("PIA"), which is their Social Security benefit at full retirement age. To be eligible, your LGBTQ clients must:

(1) be at least 62 years old,
(2) have been married for at least one year, and
(3) have had their spouse already claim benefits.

Spousal Social Security benefits are important to point out, particularly for older LGBTQ couples who have delayed marriage.

Social Security benefits are also available to certain divorcees, allowing them to collect up to 50% of an ex-spouse's PIA. To be eligible, your LGBTQ clients must:

(1) be at least 62 years old,
(2) have been married at least 10 years and currently unmarried, and
(3) if the divorce is within the past two years, their ex-spouse must have filed for Social Security benefits. (If the divorce was more than two years ago, their ex-spouse does not have to have filed.)

These benefit protections are available to divorcees from same or opposite gendered married couples, including an LGBTQ individual who was previously in a heterosexual marriage.

Lastly, Social Security survivor benefits provide up to 100% of a deceased spouse's PIA, plus any delayed retirement credits. Also, survivor benefits can be received independent of an individual's benefit. To be eligible, your LGBTQ clients must

(1) be at least 60 years old and
(2) have been married at least nine months, and currently widowed or remarried after age 60.

Divorcees may also claim survivor benefits based on an ex-spouse's record.

Survivor benefits are critical to Social Security planning, because individual filing decisions may significantly impact a surviving spouse (or ex-spouse). Widows and widowers inherit the higher of the two benefits when their spouse (or ex-spouse) pre-deceases them. Consequently, when the higher earner of a couple maximizes benefits by delaying, they not only maximize their own benefit, they maximize the survivor benefit as well.

**Long-term care**
Currently, it is estimated that there are around three million LGBTQ adults over age 50. That number is expected to grow to around seven million by 2030.[6] This means that, more than likely, financial professionals already serve, or will soon serve, older

LGBTQ adults. Helping these clients think through their long-term care ("LTC"), is of utmost importance, for a number of reasons.

Older LGBTQ adults are two to three times more likely to live alone than non-LGBTQ elders; older LGBTQ adults are also four times less likely to rely on adult children for informal caregiving.[7] This means that LGBTQ clients are more likely to be forced to rely on formal or paid caregivers to assist with activities of daily living (*e.g.*, eating, bathing, dressing, etc.) as well as instrumental activities of daily living (*e.g.*, managing money, running errands, housework, etc.). This dilemma can cause significant concern to older LGBTQ adults, many of whom express fear of discrimination from the staff of LTC facilities and other social service representatives. This can lead some LGBTQ elders to go "back into the closet" to receive the care they need, or to delay accessing care until a crisis. This fear of discrimination is the reason that the vast majority of LGBTQ elders say they would feel more comfortable with LTC providers who (1) are specifically trained in LGBTQ patient needs, (2) use advertising to highlight LGBTQ-friendly services, (3) have some staff members who are LGBTQ themselves, and (4) display LGBTQ-welcoming signs or symbols in facilities and online.[8] Finding such quality LTC providers may be difficult, and expensive.

Having LTC insurance in place increases the chance LGBTQ clients have the ability to seek out, find, and pay for safe and affirming care – whether at home care or in some type of LTC facility.

# Final thoughts

Where to live and deciding whether to marry and/or have kids are the same important life decisions that all young adults make; and those life decisions have important implications on all peoples' financial futures. Likewise, understanding Social Security and LTC is important for everyone, gay or straight (or somewhere in between), so that they can live out their later years with as much financial, physical, and emotional security as possible. But understanding the nuances and the different starting points and perspectives from which LGBTQ clients approach these major life decisions is important to understand, so that financial professionals can provide these clients with the best guidance possible.



NFM-19708AO.1 (07/20)

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1 590 U.S. ___ (2020).
2 https://www.forbes.com/sites/brianthompson1/2019/06/16/5-ways-lgbtq-financial-planning-is-different/#23398dd47a39.
3 https://www.forbes.com/sites/brianthompson1/2018/06/13/planning-for-lgbtq-couples-distinct-financial-challenges-persist/#660b26b73320.
4 *United States v. Windsor*, 570 U.S. 744 (2013); *Obergefell v. Hodges*, 576 U.S. 644 (2015).
5 See https://surrogate.com/intended-parents/the-surrogacy-process/how-much-does-surrogacy-cost/; see also https://money.usnews.com/money/personal-finance/family-finance/articles/what-adoption-costs-and-strategies-to-pay-for-it.
6 https://williamsinstitute.law.ucla.edu/category/research/ census-lgbt-demographics-studies/.
7 https://sageusa.org/your-rights-resources/.
8 AARP, Maintaining Dignity Understanding and Responding to the challenges Facing Older LGBT Americans. 2018, https://doi.org/10.26419/res.00217.001.