

The same but different: Financial planning with LGBTQ+ clients

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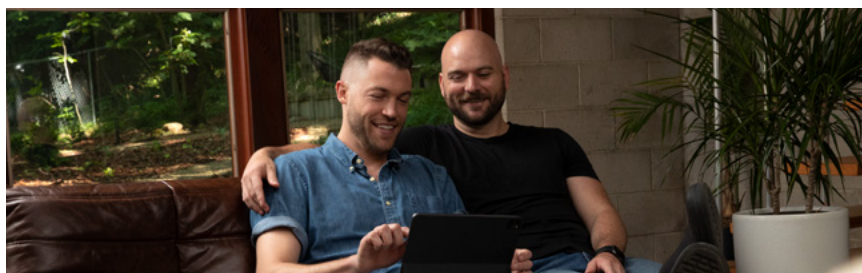
In the United States today, LGBTQ+ individuals enjoy many freedoms and rights that previously have been denied them. These rights have done much to improve their everyday lives, not the least of which is access to the financial advantages that come with legal marriage and protections from discrimination in work and health care.

In terms of financial planning, LGBTQ+ clients have similar needs and opportunities to straight clients, but there are important differences that financial professionals should recognize and be conscientious of when working with LGBTQ+ individuals.

Reports estimate there **are around 3 million LGBTQ+ adults** over age 50 in the U.S. By 2030, this population is expected to grow to **around 7 million**.¹

In this white paper, we'll explore some of these differences and their potential financial implications, such as choices on where to live, whether to marry and whether to have children. Then, we'll explore two important components of financial planning — Social Security and long-term care (LTC) — through the lens of LGBTQ+ clients, paying attention to common misconceptions and examining how decisions LGBTQ+ individuals and couples make can impact their financial future.

Financial professionals who actively address these differences have the opportunity to cultivate lasting relationships with LGBTQ+ clients and help them achieve their long-term financial goals.



Key highlights

- ▶ Discrimination against LGBTQ+ individuals, both past and present, has an adverse impact on the ability to achieve a comfortable financial future
- ▶ Recognition of same-sex marriage creates financial planning options for LGBTQ+ clients around Social Security and long-term care
- ▶ Recognizing the financial challenges and opportunities LGBTQ+ clients face can help financial representatives build long-term trusted relationships

An imperfect equality

Despite progress towards equality, discrimination remains a reality for LGBTQ+ individuals. Some is ongoing and some is a shadow from the past. Believe it or not, it was only in June 2020 that the U.S. Supreme Court finally confirmed that federal protection against workplace discrimination applies to all LGBTQ+ individuals under the Civil Rights Act of 1964.²

Although discrimination affecting LGBTQ+ people and its impacts are hard to map and quantify, financial professionals should be aware that LGBTQ+ clients are likely to have experienced discrimination of one form or another. This discrimination in turn, particularly discrimination in the workplace, has resulted in negative financial ramifications in the lives of countless LGBTQ+ individuals.

Discrimination has long-term consequences

- ▶ Until 2020, private employers in 28 states were free to fire individuals for perceived or self-identified LGBTQ+ status

- ▶ 1 out of 3 LGBTQ+ employees continue to report unfair treatment at work³



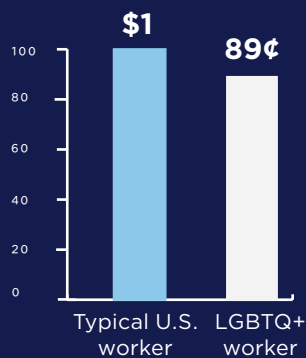
- ▶ 1 out of 3 LGBTQ+ employees report leaving a job because of that anti-LGBTQ+ treatment³



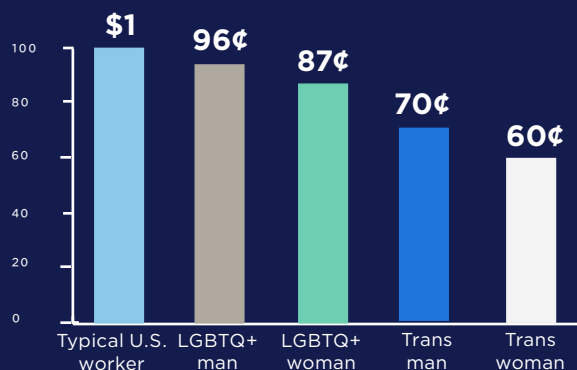
- ▶ Approximately 1 in 5 (22%) of LGBTQ+ adults live in poverty⁴



- ▶ LGBTQ+ workers earn 89 cents per every dollar the typical worker in the United States makes per week⁴



- ▶ When it comes to the pay gap, women in the LGBTQ+ community, trans men and trans women deal with even greater pay disparity, earning less than typical U.S. workers⁴



As an example, workplace discrimination often means LGBTQ+ clients have inconsistent employment histories and limited opportunities for professional advancement. There's evidence that lesbian women and gay men earn significantly less than their heterosexual counterparts.

Even brief gaps in pay can over time create wide disparities, thanks to the power of compounding. The opportunity cost of each dollar not earned and saved in 1 year is a dollar that can't compound gains and grow in every year that follows.

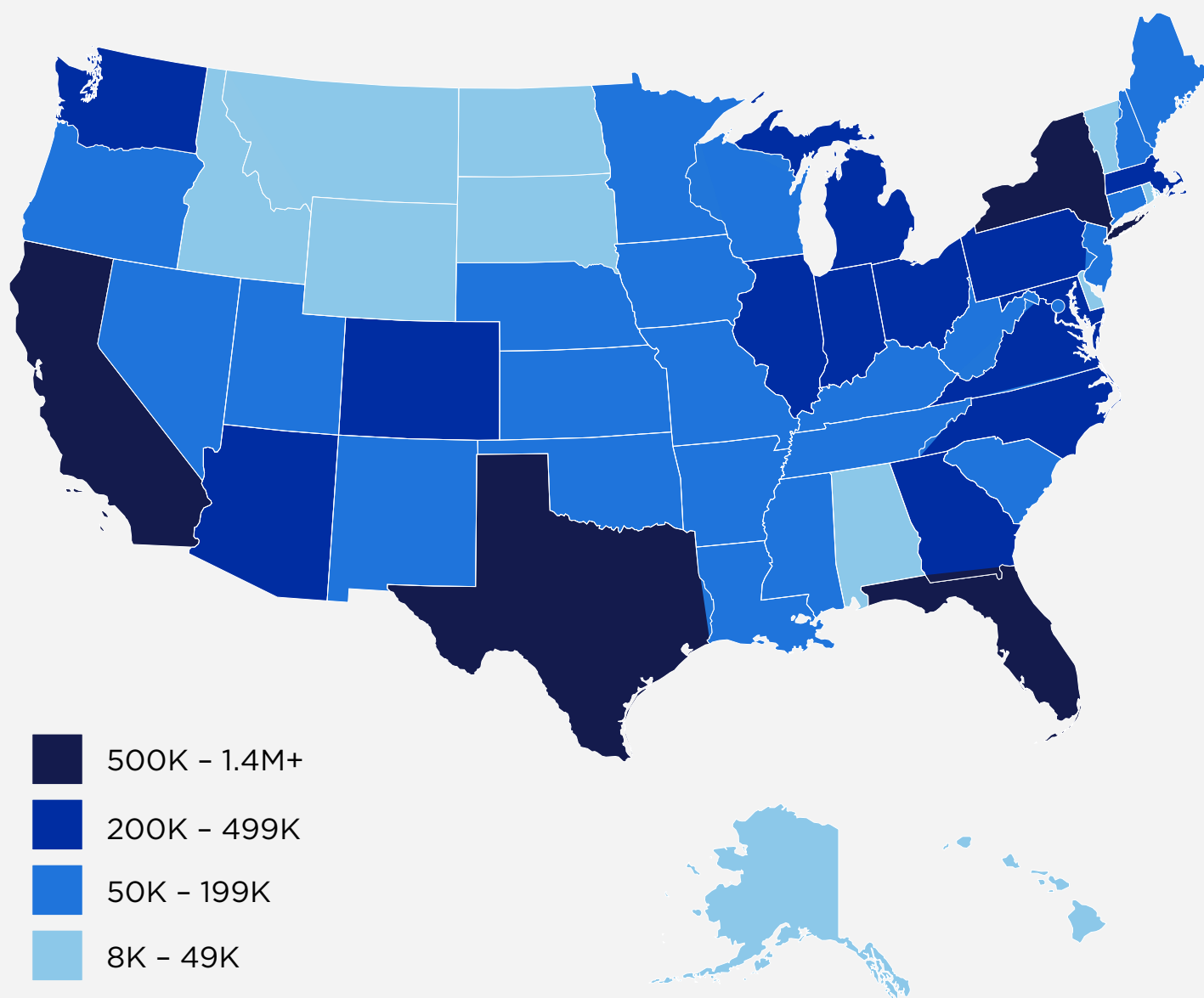
Cost of living concerns

LGBTQ+ individuals have formed communities primarily in places most welcoming to them. These areas are most commonly large metropolitan cities where nondiscrimination ordinances offer protections around housing, employment, and essential services. As it often happens, maintaining primary residences in large cities comes with higher costs of living.

Higher expenses for housing, health care, insurance and other essentials can alter the financial planning equation. That includes day-to-day costs that may limit how much LGBTQ+ individuals can save today and higher future costs of living that require bigger retirement accounts down the road.

Where do LGBTQ+ individuals live?⁵

LGBTQ+ population in the United States



Source: "LGBT Populations," Movement Advancement Project, lgbtmap.org/equality-maps/lgbt_populations (accessed Oct. 6, 2023).

Marriage ups and downs

Marriage comes with more than 1,100 legal benefits and protections for both straight and LGBTQ+ couples. However, there are a few scenarios to be aware of where marriage can create some potential financial downfalls as well.

For example, when both individuals earn high salaries, tying the knot elevates the likelihood of the couple falling into the “marriage penalty,” where their combined incomes push the household into a higher tax bracket. In such circumstances, a “married, filing jointly” tax status may impose a higher federal income tax burden than would be the case if the two individuals remained unmarried and filed as single taxpayers.

Additionally, if an LGBTQ+ partner has children who are in college or may soon enter college, marriage could affect financial aid applications. Because both spousal incomes are declared on the FAFSA application, a high combined income could reduce the amount of financial aid available or disqualify the student from receiving any financial aid.

Remaining unmarried also allows two LGBTQ+ individuals the flexibility of other planning strategies to minimize taxation, such as efficiently splitting or allocating ownership of real estate and businesses.

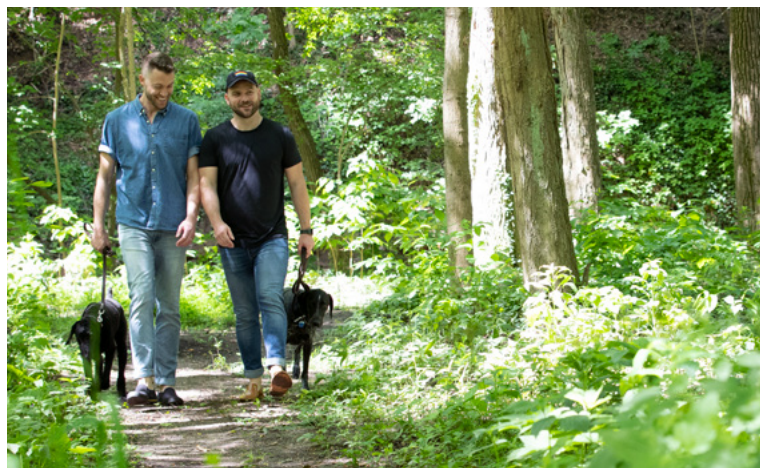
Same-sex marriage: “I do” or “No thanks”?

I do

- ▶ Estate and gift tax avoidance
- ▶ Potential to access better or less-costly health insurance

No thanks

- ▶ Higher tax bracket for married couples when both spouses earn a high income
- ▶ Reduced or disqualified student financial aid



However, marriage does make it easier for LGBTQ+ spouses to gift and bequeath money and other assets to each other without raising the interest of the IRS. For instance, an individual cannot give another person more than \$15,000 per year without possibly incurring gift taxes (if they eventually exceed the lifetime gift limit), but married couples can share money with each other freely. Similarly, married couples can transfer assets more efficiently in the event of the death of one spouse, without incurring estate taxes.

Marriage can also provide greater access to health insurance. If one spouse has an employer-provided health plan that covers spouses (not all do), it could mean lower premium and co-insurance costs and potentially access to better care.



Family Planning

The trend of LGBTQ+ couples choosing to have and raise children is also gaining wider acceptance. In 2021, the U.S. Census Bureau found that 15% of LGBTQ+ couples had at least one child under 18 in their household, compared with 38% of married opposite-sex couples and 35% of unmarried opposite-sex couples.⁶

Parents know that having children changes everything. Not the least, it demands a great deal of financial foresight and discipline. Statistics from the Brookings Institution, an economic think tank, show that the average middle-income family with 2 children will spend \$310,605 to raise a child born in 2015 up to age 17.⁷ LGBTQ+ couples who choose to become parents will face additional costs for adoption and/or surrogacy that will significantly increase this amount from the start.

Moreover, if a child intends to pursue higher education, in looking at all ranked schools, the average cost of tuition and fees for the 2023-2024 school year is \$42,162 at private colleges, \$23,630 for out-of-state students at public schools and \$10,662 for in-state residents at public colleges, according to data reported to U.S. News in an annual survey.⁸

LGBTQ+ Parenthood Facts

- Over half (54%) of same-sex couples with children had only one child⁹
- Same-sex couples are four times more likely to adopt children or have stepchildren⁹
- Domestic adoptions can cost as much as \$60,000, while international adoptions can exceed \$50,000¹⁰
- Surrogacy is more expensive than adoption, ranging from \$100,000 to \$200,000+¹¹



Making decisions on Social Security

The recognition of same-sex marriage opened a door for LGBTQ+ couples to plan for a more secure and comfortable retirement. For many couples, income planning, including understanding spousal Social Security benefits, is key to achieving financial security over a long retirement.

Spousal benefits allow a member of a couple to file for Social Security benefits based on their spouse's working record. Spousal benefits are especially valuable if one spouse doesn't work or has a limited work history, or if there's a large difference in career earnings between the two spouses.

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 for spousal benefits, a person must:

- Be at least 62 years old
- Have been married for at least 1 year
- Have had their spouse already claim benefits

Survivor benefits are also important for LGBTQ+ couples for helping a surviving spouse maintain their standard of living and a comfortable retirement. Survivor benefits provide up to 100% of a deceased spouse's PIA, plus any delayed retirement credits. To be eligible for survivor benefits, a person must:

- Be at least 60 years old
- Have been married at least 9 months and is currently widowed or remarried after age 60

Additionally, if a client was previously divorced (think about an LGBTQ+ person coming out of a heterosexual marriage later in life), they may be eligible to receive Social Security benefits on their divorced spouse's record. To qualify for these benefits, the client must be at least 62 years old and have been married for at least 10 years. If the client remarried before age 60 and remains so, they are no longer eligible to claim benefits on an ex-spouse's record.

Planning for long-term care

The number of older Americans is expected to rise over the next few decades, and so too will the number of LGBTQ+ people over age 50. As people get older, they face more important decisions regarding health care and long-term care (LTC), especially how to pay for it. For LGBTQ+ individuals, these decisions are compounded by specific concerns that should be included in any financial planning discussion.

Many older people in the LGBTQ+ community worry about discrimination at LTC facilities and from other social service providers. In fact, some will feel it necessary to go "back into the closet" to avoid potential discrimination or neglect, or delay seeking care until forced to do so.

Over 80% of older LGBTQ+ individuals say they would feel more comfortable with LTC providers who actively demonstrate LGBTQ+-friendly credentials and intentions.¹² They would prefer providers who are specifically trained in LGBTQ+ patient needs, highlight LGBTQ+-friendly services or display LGBTQ+-welcoming signs, and have some staff members who are LGBTQ+ themselves.

From a financial planning standpoint, it can help to clear up some of the popular misconceptions that LGBTQ+ clients and others have about LTC. Perhaps most importantly, make sure they realize that traditional health insurance policies such as employer-sponsored plans do not cover LTC costs. Medicare is also not a realistic option. At most, Original Medicare will cover only 100 days of care at a skilled nursing facility, and even then, only the first 20 days are covered. There is a significant co-pay for the remaining 80 days, and after that, Medicare will pay nothing.

That is why LTC should be a part of the financial planning discussion with LGBTQ+ clients. Most often, LTC costs are paid out-of-pocket, resulting in depleted savings and reducing income intended for other necessary expenditures. Working with LGBTQ+ clients to include LTC as part of their financial plan allows clients to plan ahead with solutions like LTC insurance that increases the likelihood they can receive the safe and affirming care they desire and deserve.

LGBTQ+ Long-Term Care¹

- ▶ LGBTQ+ individuals are 2x-3x more likely to live alone than non-LGBTQ+ individuals
- ▶ LGBTQ+ individuals are 4x less likely to rely on adult children for caregiving
- ▶ 54% of LGBTQ+ individuals receive care from a partner
- ▶ 24% of LGBTQ+ individuals receive care from a friend

A different approach to familiar goals

Today, LGBTQ+ individuals enjoy more legal privileges and protections in the United States than ever before, some of which have the potential to significantly improve their financial standing. Although from a financial planning perspective, LGBTQ+ clients have similar needs for long-term financial security and retirement income, do not forget that working with LGBTQ+ clients requires an awareness of the

financial impacts of past and present discrimination and a recognition of the need for different approaches to achieving familiar financial goals.

For financial professionals, an understanding of the challenges and opportunities LGBTQ+ clients face can help you develop unique approaches for their financial plans and build long-term, trustworthy relationships.

Key takeaways



Decisions around where to live, whether to marry and whether to raise children have financial impacts on LGBTQ+ clients.



Recognition of same-sex marriage allows LGBTQ+ couples to take advantage of the Social Security filing rules for spouses to help plan for income in retirement.



Planning for LTC brings unique considerations for LGBTQ+ clients, but financial professionals can present solutions for covering LTC costs as part of their overall financial plan.

About the Author

George Schein, JD, ChFC, CLU, advised both for-profit and not-for-profit employers as an employee benefits attorney in private practice for over a decade before joining Nationwide Financial in 2018. His work in the Advanced Consulting Group focuses on providing technical expertise and education to financial professionals and plan sponsors as it relates to qualified retirement plans and welfare benefit plans. He also partners with employers and their third-party vendors to evaluate current plan offerings and/or identify alternative solutions to ensure that the employer's objectives are being met and that employees have opportunities to plan for and live in retirement.

As a proud member of the LGBTQ+ community who is married with two children, George has personal experience navigating through the decision-making process of many of the topics addressed here. He has also donated countless amounts of time, treasure, and energy promoting LGBTQ+ equality as a 10-year member of two separate Steering Committees of the Human Rights Campaign (HRC), first in Cincinnati, then in Columbus. He also served as a member of the Board of Governors of HRC, representing Columbus. George remains involved in promoting LGBTQ+ causes as a member of the Board of Nationwide's own PRIDE Associate Resource Group.

George graduated from Miami University summa cum laude with a dual Bachelor of Arts in International Studies and Diplomacy & Foreign Affairs and went on to earn his Juris Doctor from the University of Minnesota cum laude. George is admitted to the bar in Illinois and Ohio.



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¹ "Facts on LGBT Aging," SAGE and the National Resource Center on LGBT Aging, sageusa.org/resource-posts/facts-on-lgbt-aging/ (March 2021).

² *Bostock v. Clayton County*, 590 U.S. ____ (2020).

³ "LGBT People's Experiences of Workplace Discrimination and Harassment," UCLA School of Law, Williams Institute, williamsinstitute.law.ucla.edu/publications/lgbt-workplace-discrimination/ (September 2021).

⁴ "The Wage Gap Among LGBTQ+ Workers in the United States," hrc.org/resources/the-wage-gap-among-lgbtq-workers-in-the-united-states (accessed Oct. 1, 2023).

⁵ "LGBT Populations," Movement Advancement Project.

⁶ "Characteristics of Same-Sex Couple Households: 2005 to Present," U.S. Census Bureau, census.gov/data/tables/time-series/demo/same-sex-couples/ssc-house-characteristics.html (Nov. 21, 2022).

⁷ "It's getting more expensive to raise children. And government isn't doing much to help," Isabel V. Sawhill, Morgan Welch and Chris Miller, brookings.edu/articles/its-getting-more-expensive-to-raise-children-and-government-isnt-doing-much-to-help/ (Aug. 30, 2022).

⁸ "What You Need to Know About College Tuition Costs," Emma Kerr and Sarah Wood, U.S. News & World Report, usnews.com/education/best-colleges/paying-for-college/articles/what-you-need-to-know-about-college-tuition-costs (Sept. 20, 2023).

⁹ "Same-Sex Couples Are More Likely to Adopt or Foster Children" U.S. Census Bureau, (Sept. 17, 2020).

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¹¹ "How Much Surrogacy Costs and How to Pay for It," Beth Braverman, U.S. News & World Report, money.usnews.com/money/personal-finance/family-finance/articles/how-much-surrogacy-costs-and-how-to-pay-for-it (May 30, 2023).

¹² "Maintaining Dignity: Understanding and Responding to the Challenges Facing Older LGBT Americans," Angela Houghton, aarp.org/research/topics/life/info-2018/maintaining-dignity-lgbt.html (March 2018).

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