Guide to LGBT finances: You can live a richer life

Lesbian, gay, bisexual and transgender Americans have made extraordinary strides toward equality in recent years, yet obstacles remain – including disparities in personal finance. For example, results of a Prudential Financial survey released in 2018 found that LGBT Americans are less likely than the general population to:

- Have saved nothing for retirement
- Have employer-sponsored retirement account such as a 401(k)
- Have an IRA
- Have a basic banking product like a checking, savings, money market of certificate of deposit (CD) account

"The financial issues facing the LGBT community are the same as everyone else, plus a long list of additional issues," says David Rae, a certified financial planner in Los Angeles who serves LGBT clients.

The goal of this guide is to help LGBT Americans tackle these issues and head down the right financial course. We've split this guide into sections devoted to five key financial issues – retirement, insurance, marriage, children and credit card debt.

Retirement

The Prudential Financial survey revealed some of the retirement-planning differences between the LGBT population and the general population in the United States.

- **27% of LGBT Americans have an employer-sponsored retirement account** such as a 401(k), compared with 41% of non-LGBT respondents.
- **21% of LGBT Americans have an IRA**, compared with 32% of non-LGBT Americans.
- **Half of LGBT Americans have a basic banking product** such as a checking, savings or money market account a CD. Meanwhile, two-thirds of non-LGBT Americans have at least one of these products.
- **55% of LGBT Americans have saved nothing for retirement**, compared with 42% of non-LGBT Americans.

Those statistics suggest that many LGBT Americans are not properly prepared for their financial future.

How can you become financially ready for the future? Do these 5 things

1. Save more now.

Financial services provider TIAA suggests setting aside 10% to 15% of your income for retirement. If you're behind on saving for retirement, then you'll probably want to bump up that percentage.

2. Participate in your company's 401(k)

One of the best ways to accumulate retirement savings is through an employer-sponsored 401(k). TIAA notes that if you stash 5% of your income in a 401(k) and your employer provides a 5% match, then you've already achieved a retirement savings rate of 10%.

3. Stash money in an IRA.

If your employer doesn't offer a 401(k) option, then you should consider setting up an individual retirement account (IRA). This investment vehicle lets you save money on a tax-free or tax-deferred basis.

Don't put off saving for retirement. "When you start at 55, it's a lot more work to save for retirement than if you start at 45 or 35 or 25," Rae says.

To find a certified financial planner in your area, visit letsmakeaplan.org.

4. Build an emergency fund

Experts recommend creating an emergency fund to cover three to six months of living expenses if something catastrophic happens.

You can easily accomplish this by having money automatically deposited into the emergency fund every time you get paid.

5. Draw up a will or estate plan

As part of retirement planning, you also should have a will that spells out where you want the money you've socked away to go after you die, particularly if you're married or have children.

Even better than a will, an estate plan enables you to dictate your financial and medical wishes if you become incapacitated.

For instance, maybe your parents disowned you after you came out, and you don't want them making financial or life-or-death decisions on your behalf. Through an estate plan, you can assign this responsibility to people you trust.

A certified estate planner or an estate attorney can help put together your will or estate plan.

For single LGBT Americans who don't have children, the prospect of planning for and living through retirement can be daunting.

"Many LGBT seniors will really struggle to stay up with their health care and long-term care. You don't realize how much of this burden is often carried by adult children," Rae says.

On top of that, many LGBT seniors fear discrimination based on geographic location.

"Homophobia is still a factor in where we choose to live, work and retire," Rae says. "I speak with many LGBT pre-retirees who would like to retire near their families, but are concerned that they won't be able to get adequate health care."

Insurance

Jud Gee, a certified estate planner in Charlotte, North Carolina, advises his LGBT clients to think about what type of insurance (life, disability, health and/or long-term care insurance) they need.

Life insurance

A married LGBT couple or a single LGBT person who's adopted a child should consider life insurance. This coverage can replace at least some of the income lost due to a death.

"No one wants to talk about their mortality or what would happen to them if they got hit by an eighteen-wheeler and couldn't walk anymore," Gee says, "but it's reality."

In many cases, employers do provide life insurance coverage, but if you need to buy life insurance, the cost depends on several factors, such as whether you smoke cigarettes.

Disability insurance

LGBT Americans also should weigh disability insurance. If you don't think you need disability insurance, keep this statistic in mind: One-fourth of today's 20-year-olds will become disabled by age 67, according to the U.S. Social Security Administration.

Social Security and some employers offer disability insurance, but you might want extra coverage.

Generally, disability insurance covers roughly 60% of your income and costs 1% to 3% of your income, according to DisablityInsuranceQuotes.com. You can buy both short-term and long-term disability coverage.

Health insurance

You also should examine your health care coverage. Fifteen percent of the LGBT population does not have health insurance, compared with 12% of the non-LGBT population, according to the Williams Institute at UCLA's law school.

Living with HIV

One segment of the LGBT population coping with particularly high health care costs is Americans living with HIV. The U.S. Centers for Disease Control and Prevention (CDC) reported in 2020 that the lifetime treatment costs for someone with HIV are $485,000. According to the CDC, about 1.2 million Americans are living with HIV.

Transgender health costs

Health care coverage also is an especially frustrating issue for transgender Americans. Most public and private health insurers haven't caught up with the times regarding the health care needs of transgender people, according to Lambda Legal, an LGBT civil rights group.

"The kinds of health care associated with gender transition have too often been misunderstood as cosmetic, experimental or simply unnecessary," Lambda Legal says.

Long-term care insurance

Aside from life, disability and health insurance, LGBT Americans should contemplate a long-term care insurance policy or an annuity with a long-term care component, especially in light of the fact that Medicare doesn't cover all long-term care expenses.

Data published in 2020 by Genworth Financial shows the annual median cost of a private room at a nursing home stands at $105,850, with the median cost of a private one-bedroom apartment at an assisted living facility sitting at $51,600 a year.

Whether it's life insurance or long-term care insurance, Amy Berk, a financial adviser with Ameriprise Financial in Denver whose clients include LGBT people, likes to think of insurance as a way to prepare for the unknown and "transfer some of the risk" to an insurer.

Marriage

Since the Supreme Court decision in 2015 that legalized same-sex marriage, more same-sex couples are getting hitched.

According to data published in 2019 by the U.S. Census Bureau, there are a little over 1 million same-sex households in the country, with 543,000 of them headed by married couples. The number of same-sex married couples jumped nearly 70% from 2014 to 2019.

Before saying "I do," a couple should consult with a financial adviser to "make sure you've contemplated every angle," says Cathy Pareto, a certified financial planner in Coral Gables, Florida, whose clients include LGBT people. She and her wife, Karla Arguello, married in 2015.

Among the issues to address:

- **Finances:** Should you and your spouse merge finances, such as checking and savings accounts, after merging households?
- **Taxes:** How will you and your spouse file your taxes – as individuals or as a couple?
- **Children:** If you have children, should one of the spouses be a stay-at-home parent? Or will you hire a nanny or take your kids to day care?
- **Legal documents:** Which documents need to be updated, such as insurance policies, medical directives, and wills or estate plans?

The answers to these questions become even more complicated when a same-sex couple is not legally married. When LGBT couples are not married, they are not automatically next of kin.

This "means that even a distant cousin or homophobic sibling or parent could successfully argue they are next of kin and should inherit your estate or make medical decisions for you," says Herndon Davis, a mortgage broker in Houston who serves LGBT clients.

Therefore, legal documents regarding medical decisions and inheritance must be drawn up to ensure the wishes of unmarried same-sex partners are followed, Davis says.

Children

More LGBT singles and couples are adding children – and the related extra expenses – to their households.

"If you were having money troubles *before* you have kids, you're going to have a lot more money troubles *after* you have kids," Rae says.

In 2017, the U.S. Department of Agriculture (USDA) reported that it would cost an average of $233,610 to raise a child born in 2015. That's close to $13,000 annually over the course of 18 years. More than one-fourth of that money goes toward housing.

That cost burden is being shared by thousands of LGBT Americans. The Census Bureau says 14.7% of same-sex couples in the U.S. had at least one child under 18 in their household in 2019.

Pareto, the Florida financial adviser, is all too familiar with the costs of raising children.

She and her wife adopted their oldest son in 2012 and went through IVF to bring their twins (a boy and a girl) into the world in 2015. Shortly before the Supreme Court ruling on same-sex marriage, the two women became the first same-sex couple to get married in Florida.

Given the high price of surrogacy (easily $60,000 and above), adoption ($15,000 to $40,000) and IVF ($12,000 to $17,000) – not to mention everyday child-rearing expenses – LGBT couples (or single LGBT Americans) "really, really, really, really have to think long and hard" about becoming a parent and "really, really, really, really have to be ready for it," Pareto says.

Credit card debt

Debt can cripple anyone, regardless of sexual or gender identity, but Davis, the Houston mortgage broker, sees this firsthand with some of his LGBT clients.

Some LGBT Americans – particularly those without children – wind up amassing too much high-interest credit card debt as a share of their income, he says.

"The problem arises when they pay only the minimum payment and then continue to charge and apply for more credit," he says.

This scenario, Davis says, "can spiral out of control," and harm your ability to purchase a home or put away money for retirement.

Personal finance expert John Schneider, one of the Debt Free Guys, has a theory about why LGBT Americans get deep into debt.

“So often, we in the LGBTQ community spend our money to make up for childhoods that were less than ideal or to fit in with our new community with higher expectations,” Schneider says.

Schneider and his husband, David Auten, run their website and the Queer Money podcast. They became personal finance authors, bloggers, podcasters and speakers after wiping out $51,000 in combined credit card debt in 2.5 years.

How can you escape your own debt spiral? Experts suggest these 4 steps:

1. Create a household budget.

This enables you to track how much money you’re earning versus how much you’re spending. Also, it encourages you to explore ways to save or generate money – such as eating at home more often, taking fewer vacations or even getting a second job – and apply that extra cash to the reduction of your credit card debt.

2. Consolidate your debts.

Through debt consolidation, you take out a loan to combine several credit card bills into one easier-to-manage payment. The aim is to reduce the number of payments you’re making each month, and to exchange higher-interest credit card debts for lower-interest loan debt.

3. Get a balance transfer credit card.

Oftentimes, a credit card company will extend a balance transfer offer that gives you a low interest or even no interest for a certain period. This buys you time to erase your debt before the higher interest kicks in.

4. Seek a credit counselor’s help.

If you feel like you’re buried in debt and can’t dig your way out, it might be time to contact a credit counselor.

The counselor can work with you to set up a personal budget and a debt repayment plan.

To find a nonprofit credit counseling agency in your area, visit nfcc.org.

The goal of ending the debt spiral (and saving now) is to have the money to accomplish your goals – such as being happily married, married with children or able to travel wherever you want – now and through the years.

“When we figure out what’s most important to us and spend accordingly,” Schneider says, “we can usually achieve what we *truly* want.”

Ivey O’Neal contributed resource material for this guide.

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