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All You Need Is Love...and a Spousal IRA

By Sarah Holden

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As you're racking your brain to find that perfect Valentine's Day gift, you might want to consider, whether for yourself or your spouse, a contribution to an individual retirement account (IRA).



These popular retirement savings accounts are used [by about 48 million US households](#) to grow and maintain their savings, and our research shows that Americans have [more than \\$11 trillion](#) in assets invested in these accounts. [Traditional IRAs](#) are the most common type of IRA, although [Roth IRAs](#) have been increasing in popularity.

Looking for Love? It's Not Too Late

It's not too late to make a contribution to an IRA for the 2020 tax year. You're allowed to make contributions until Tax Day in mid-April and a tax-deductible contribution could reduce your 2020 tax bill.

For the 2020 tax year, individuals are limited to \$6,000 in total contributions to all of their traditional and Roth IRAs. Those 50 or older can contribute an additional \$1,000 (a "catch-up" contribution). Significantly, due to a recent law change, individuals older than 70 can contribute to traditional IRAs.

Although IRAs have these contribution limits, they offer a choice: you can pay your taxes now or you can pay your taxes later. Contributions to traditional IRAs are tax-deferred (subject to certain limits)—that is, no income tax is paid until you withdraw money from the IRA. In contrast, contributions to Roth IRAs are taxable, but no taxes are paid when you make a withdrawal (subject to certain restrictions).

With a Little Help from My Spouse

If you're married, you can use your earnings to contribute to either a traditional or Roth IRA for your spouse, which would be opened in his or her name, to increase tax-advantaged retirement savings for your family. As the [IRS explains](#):

Kristin, a full-time student with no taxable compensation, marries Carl during the year. Neither of them was age 50 by the end of [2020]. For the year, Carl has taxable compensation of \$30,000. He plans to contribute (and deduct) \$6,000 to a traditional IRA. If he and Kristin file a joint return, each can contribute \$6,000 to a traditional IRA. This is because Kristin, who has no compensation, can add Carl's compensation, reduced by the amount of his IRA contribution (\$30,000 – \$6,000 = \$24,000), to her own compensation (-0-) to figure her maximum contribution to a traditional IRA.

It's Easy to Open an IRA

You can open an IRA with the assistance of investment professionals, such as those at full-service brokerage firms, banks or savings institutions, independent financial planning firms, or insurance companies. You can also go directly to a mutual fund company or through a discount brokerage firm. In 2020, nearly three-quarters of [traditional IRA-owning households](#) held their IRAs through investment professionals, and about three in 10 went directly to a mutual fund company or discount broker.

The next step is to decide your investment style. If you're a do-it-yourself type of investor, you can decide from a wide range of investments, including exchange-traded funds (ETFs) and [mutual funds](#)—whether index or active, whether domestic or international, whether equity or bond focused—as well as individual stocks and bonds and bank deposits.

If you'd rather leave the asset allocation and rebalancing to an investment professional, target date funds may be worth considering. A target date fund (also known as lifecycle fund) typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. The target date is your expected retirement date.

Will You Still Be Sending Me a Valentine?

As this Valentine's Day approaches, consider treating yourself or your spouse to an IRA contribution. Saving for retirement is an important household financial goal and contributing to an IRA is a good step toward providing for those later years.

Want to know more about IRAs and see which of these options are available to you? Check out [ICI's IRA resources](#), [FINRA's IRA Basics](#), or the [IRS website](#). Many mutual fund sponsors have great educational material as well.

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