A Spousal IRA May Be the Best Gift You Can Give Your Non-Working Husband or Wife

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By Sarah Holden

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Most people are aware that Social Security provides spousal benefits for husbands and wives who don't have earnings. But there is another way for a non-working spouse to save for retirement: through a spousal individual retirement account (IRA).

Now is the perfect time to contemplate a spousal IRA—and there's still time to make the contribution count for 2019.

IRAs are used by more than 46 million US households to grow and maintain their savings. Investment Company Institute research shows that Americans have $9.8 trillion invested in these accounts.

Depending on whether you choose a traditional or Roth IRA, you pay your taxes now or you can pay your taxes later. Contributions made into traditional IRAs can be tax-deferred (as long as you are not covered by a retirement plan at work or your income falls below certain limits). Either way, no income tax is paid on the earnings inside your traditional IRA until you withdraw the money.

In contrast, contributions to Roth IRAs are made with after-tax dollars and are subject to income limits, but no taxes are paid when you make a withdrawal after a required holding period. Even though it's not intuitive, it turns out that for many workers these two very different approaches provide the same tax benefits.

Here's where the spousal IRA comes in. If you're married, you can use your earnings to contribute to either a traditional or Roth IRA for your spouse, which you would open in his or her name, to increase tax-advantaged retirement savings for your family. To illustrate how this works, the following example is adapted from an IRS publication:

Kristin, a full-time student with no taxable compensation, marries Carl during the year. Neither of them was age 50 by the end of 2019. For the year, Carl has taxable compensation of $100,000. He plans to contribute $6,000 to a traditional IRA, so he can deduct his contribution from his taxable income. 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 ($100,000 – $6,000 = $94,000), to her own compensation ($0) to figure her maximum contribution to a traditional IRA. In her case, $6,000 is her contribution limit, because $6,000 is less than $94,000 (her compensation for purposes of figuring her contribution limit).

If they don't mind forgoing the tax deduction, Carl or Kristen could instead put $6,000 apiece into a Roth IRAs.

Check here for income eligibility limits for both traditional and Roth IRAs.

Similarly, the earnings of a higher-earning spouse can be used to cover an IRA contribution for a lower-earning spouse.

If you're considering this option for your Valentine, another factor to consider is that there is still time to make a contribution to an IRA for the 2019 tax year. You're allowed to make contributions until Tax Day in mid-April, and a tax-deductible contribution could reduce your 2019 tax bill.

For the 2019 tax year, individuals are limited to $6,000 in total contributions to their traditional and Roth IRAs. Those 50 or older can contribute an additional $1,000.

So how do you open an IRA? You can open one with the assistance of investment professionals, such as 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 2019, three-quarters of traditional IRA–owning households held their IRAs through investment professionals, three in 10 went directly to a mutual fund company or discount broker.

Depending on where you open your IRA, you will have different investment options. If you're a do-it-yourself type of investor, you may want to consider a range of options 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.

A popular option among retirement savers is a target date fund, which offers diversification and a professionally managed asset allocation that changes as you age. A target date fund (also known as a 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—the year in which the investor anticipates retirement.

So, as this Valentine's Day approaches, remember it's not too late to treat your spouse (or yourself) to an IRA contribution. Taking advantage of an IRA is a great way to build savings for retirement.

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