How Spousal IRA Contributions Can Boost Retirement Savings

Spousal IRA contributions can help married couples maximize the amount they save for retirement, even if a spouse is out of the workforce.

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KEY INSIGHTS

- Spousal IRA contributions can be useful for households looking to increase their retirement savings when one spouse has little to no income.
- A working spouse can make IRA contributions in the name of a non-working spouse.
- A spousal IRA can be either a Traditional IRA or a Roth IRA.

Maximizing contributions to retirement accounts is an important goal for many couples who want to maintain their lifestyle through a retirement that could last 30 years or more. Yet married investors may be unaware that if one spouse currently has little to no income, the other working spouse can contribute to an individual retirement account (IRA) in that person's name in addition to their own. Expanding a retirement portfolio with spousal IRA contributions helps married couples increase their total contributions and maximize their exposure to potential tax-advantaged growth—ultimately putting them closer to their retirement goals.

The spousal IRA is a valuable tool to help couples continue to save. Many couples may not realize that a spouse earning very little income, or who might be out of the workforce altogether, still has the opportunity to contribute to an IRA through a working spouse.

What are spousal IRA contributions?

To contribute to a Traditional or Roth IRA, you typically must have earned income. Spousal IRA contributions eliminate that requirement, allowing an individual with limited or no earnings to save for retirement on a tax-advantaged basis based on the earnings of his or her spouse.

To be eligible, the couple must be married and file their taxes jointly. Their combined earnings must be equal to or exceed their combined IRA contributions, up to the annual contribution limits.

Spousal IRAs are not considered a joint account but a separate IRA opened, and owned, in the name of the non-working spouse. Account ownership is not dependent on who funds the account. Additionally, spousal IRA contributions can fund an IRA that may already be established for the spouse with low to no earnings of their own.

This IRA has the same annual contribution limits as other IRAs—$7,000 ($6,500 for tax year 2023)* plus an additional $1,000 catch-up contribution if the account owner is age 50 or older for tax year 2024. As long as at least one member of a couple is earning income, there is no age limit on IRA contributions. The account can be a Traditional or Roth IRA, although there are income limits for contributing to a Roth IRA.

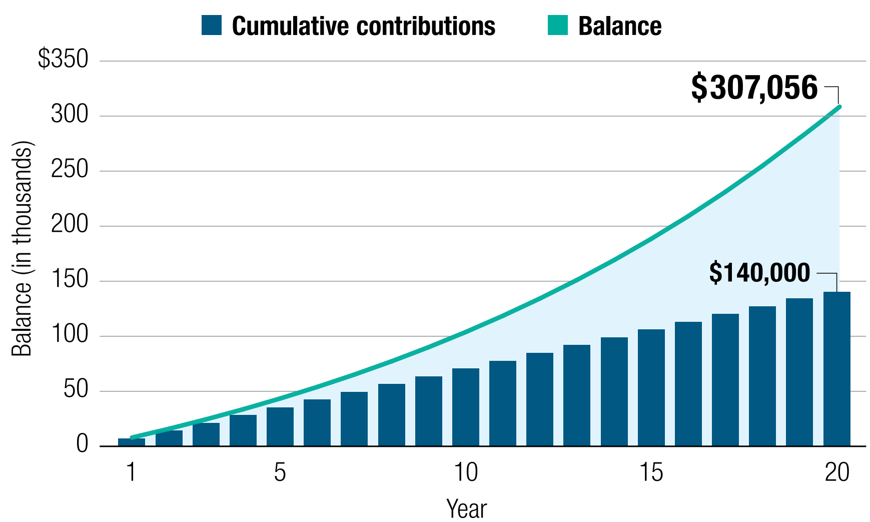
Why contribute to a spousal IRA?

The most important role that spousal IRA contributions can play in a retirement savings plan is enabling a non-working spouse to keep accumulating their own retirement savings during the period when they are out of the workforce. It's also a way to continue to fortify the overall household's retirement savings during this time by contributing to IRAs for both spouses. This approach doubles their contribution amounts, potentially to $14,000 or more, and allows them to take advantage of contributions that may be tax-deductible.

Spousal IRA contributions are most often seen in situations where one spouse is out of the workforce raising the children. They can also be used if a spouse has lost their job or even if they have retired, as long as the other spouse is still working and has earned income. Particularly when one spouse retires ahead of the other, continuing to contribute to the retired spouse's IRA offers an opportunity to take advantage of a few additional years of saving.

The Powerful Effect of Compound Growth

Over 20 years, earnings on contributions to an IRA could more than double the account balance.



Assumes a $7,000 annual contribution and an average annual return of 7%. All charts and tables are shown for illustrative purposes only and are not representative of any actual investment option(s).

*Investors have until April 15, 2024, to make IRA contributions for tax year 2023.

Spousal IRA contributions can make a substantial difference in your household retirement savings.

Saving via a spousal IRA can supplement other retirement savings contributions, such as those made to the working spouse's workplace retirement plan and/or IRAs. While the additional savings amounts may seem small, they have the potential to accumulate over time. (See "The Powerful Effect of Compound Growth.")

The spousal IRA: Traditional or Roth?

Spousal IRA contributions can fund a Traditional or Roth IRA. Contributions to Traditional IRAs may be tax-deductible, which could reduce your taxable income, while withdrawals in retirement are taxed as ordinary income. Roth IRAs, by contrast, are funded with after-tax dollars. Contributions can be withdrawn at any time without tax or penalty, but withdrawals of earnings are generally tax- and penalty-free as long as you have reached age 59½ and have held the account for at least five years.

The right choice for a given couple depends on multiple factors, including:

- *Your expected tax rate in retirement.* If you expect your marginal tax rate to be higher in retirement, it makes sense to make your contributions to a Roth IRA. If you expect your taxes to be lower, you can use contributions to a Traditional IRA to lower your current tax bill if the contributions are tax-deductible.
- *Your income trajectory.* If you expect to be in a higher tax bracket in the future, perhaps due to salary increases or projected future income from a spouse's future earnings or reentering the workforce, Roth contributions may be preferable now, allowing you to take advantage of lower income tax rates. Tax-deductible Traditional IRA contributions may be more beneficial during higher-income years.
- *Changes in your income.* Contributions to Roth IRAs are limited by income—the amount you can contribute begins to phase out when your modified adjusted gross income (MAGI) for 2024 rises above $230,000 for those married filing jointly. If having one spouse out of the workforce lowers your household income below this threshold, it might create an opportunity to save in a Roth IRA.

If you're undecided about whether to make Roth or Traditional IRA contributions, the advantage often goes to the Roth IRA. In addition to the benefits listed in the previous paragraphs, adding a Roth IRA can improve the tax diversification of your retirement assets. This approach not only hedges against the risk of changes in tax laws or your personal circumstances, it also means you'll have access to a mix of retirement savings with different tax treatments. Access to tax-free income from a Roth account can help you better manage your tax liability in retirement. Moreover, you can withdraw your contributions to—but not your earnings from—a Roth IRA penalty-free at any time.

Putting a spousal IRA to work for your family

Spousal IRA contributions can make a substantial difference in your household retirement savings, boosting savings and potentially improving your ability to reach your retirement goals. Take time to consider your options, then contribute to the IRA that best suits your household's needs. This savings tool is often overlooked by couples as a way to continue to save when one spouse is earning little to no income. It can make a difference in supporting a household's efforts to save for retirement.

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