



Spousal IRAs

What is it?

A spousal IRA is a type of individual retirement account that allows a working spouse to contribute to a nonworking spouse's retirement savings. A Spousal IRA creates an exception to the provision that an individual must have earned income to contribute to an IRA. Spouses with some earned income, but not enough to fund an IRA fully, can also qualify for the Spousal IRA.

To qualify, the couple must file a joint tax return. Spousal IRAs can be either traditional or Roth IRAs, and are subject to the same annual contribution limits, income limits and catch-up contribution provisions as traditional and Roth IRAs. While IRAs cannot be held jointly in both spouse's names, spouses can share their account distributions in retirement.

Benefits of Spousal IRA

The non-working spouse benefits by having assets that are entirely his or her own. The Spousal IRA is a completely separate account, set up in the non-working spouse's name. This means that once a contribution is made to that IRA, it belongs entirely to the person who owns it, and not the person who made the contribution. For someone who has left the workforce to help raise a family, for example, this can be a great benefit, since a non-working spouse loses out on that earning power and potential benefits.

As a couple, you can benefit by doubling your household contributions to an IRA. For 2021, the maximum contribution is \$6,000. If the working spouse maxes out his or her IRA, and then makes another maximum contribution to the non-working spouse's IRA, the household now has the ability to contribute \$12,000 for the year. The only limitation is that the couple must have at least \$12,000 of earned income between them. Each spouse can contribute and deduct an additional \$1,000 if he or she will be 50 or older.

If the contribution is to a traditional IRA, then you can benefit from a bigger tax deduction. If the contribution is to a Roth IRA, then there is more money in the accounts earning interest on a tax-free basis. Either way, the benefit to the couple is increased with the help of a Spousal IRA.

Note:

If you were divorced or legally separated (and did not remarry) before the end of the year, you cannot deduct any contributions to your spouse's IRA. After a divorce or legal separation, you can deduct only the contributions to your own IRA. Your deductions are subject to the rules for single individuals.

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Impact of Participation in an Employer-Sponsored Retirement Plan

What impacts a Spousal IRA most is whether or not the working spouse participates in an employer-sponsored retirement plan.

If the working spouse is not in an employer plan, deductible IRA contributions of up to \$6,000 can be contributed to both their own IRA and a Spousal IRA—for a total of \$12,000—regardless of the couple's adjusted gross income (AGI) level.

If the working spouse has an employer-sponsored retirement plan, contribution to a non-working Spousal IRA may not be entirely deductible.

In this instance, if the adjusted gross income is below \$198,000, the non-covered spouse may still be able to deduct the entire contribution. However, the deduction for contributions for nonworking spouses where the working spouse is an active participant is phased out at adjusted gross income between \$198,000 and \$208,000.