Who Should Consider a Spousal IRA, According to a Financial Planner

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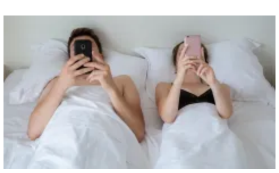

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If your employer doesn't offer a 401(k) plan, or if you want to set aside more money for retirement, you might consider an individual retirement account (IRA). But to make IRA contributions, you have to receive taxable compensation as defined by the IRS, which means taxed wages or self-employment income. If you leave the workforce or earn money under-the-table though, you miss out. Unless...

If you're married and your spouse is still working, they may be able to build an IRA for you. Here's how spousal IRAs work and the benefits to using them.

How spousal IRAs work

A spousal IRA isn't actually a separate type of IRA account — rather, it's just a traditional IRA or Roth IRA set up in the name of a spouse who has little to no income. This may include those who are caregivers for children or other family members, workers who return to school, or people who have left the workforce for another reason.

To be eligible for a spousal IRA, you have to meet a few requirements:

- You must file taxes as "married filing jointly."
- The earning/contributing spouse must make enough to cover the contributions to both their own IRA and the spousal account.
- In 2022, the IRA contribution limit is $US6,000 ($8,329) per year for those under age 50 and $US7,000 ($9,717) for those 50 and older. A couple can contribute a total of $US12,000 ($16,658) across both accounts — $US13,000 ($18,047) if one person is 50 or older, and $US14,000 ($19,435) if both spouses are 50 or older.

- There are income-based contribution limits for Roth IRAs and tax deduction limits for traditional IRAs based on your tax filing status. These may affect which type of account you select.

One key to a spousal IRA is that ownership stays with the person named on the account no matter which spouse is contributing. This also means that an existing IRA — funded while the owner of the account was in the workforce — can be a spousal IRA if that person is no longer earning income and their partner contributes to the account on their behalf.

Should you set up a spousal IRA?

If you meet the criteria and have the financial means to max out multiple retirement accounts, then you should probably consider a spousal IRA.

Spousal IRAs are the right solution for many couples, says Catherine Valega, a certified financial planner with Green Bee Advisory in Massachusetts.

“In many cases, if one spouse is not working, they are missing out on retirement assets in their name, not to mention reducing the tax-deferred growth possibilities as a couple,” Valega says.

As mentioned, you can use either a traditional IRA or a Roth IRA as a spousal account. The former utilises pre-tax income, reducing your tax burden now, while the latter comes from post-tax income and can be tapped tax-free later. Typically, those who expect to be making more down the line are more likely to consider the Roth route, but you should do some research and possibly consult a financial planner if you’re not sure which option is best for you.

What happens to a spousal IRA in a

divorce?

While spousal IRAs may be touted as financial protection in the event of a divorce, it isn't exactly so straightforward. Depending on the timing of the account and your state's laws, retirement accounts may be considered a marital asset and split accordingly.

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