Spousal IRAs

An [Individual Retirement Account](), or IRA, is typically available to individuals with any amount of earned income. This type of account allows you to save for retirement regardless of any accounts you may have with your employer. Having a separate employer-sponsored retirement account (like a 401(k) or TSP account) doesn't preclude you from opening an IRA as well. IRAs have relatively low contribution limits, but any money saved for retirement is money well saved, and there are tax benefits to using an IRA.

Someone wants to save for retirement but doesn't have any earned income typically would not be allowed to open an IRA, and they wouldn't be able to contribute to an employer-sponsored retirement account since they do not have an employer. Fortunately, there exists a workaround called a spousal IRA.

A spousal IRA allows contributions to an IRA by an individual who has no earned income *if* they have a spouse who is working. This allows the non-working spouse to save for retirement despite having no earned income of their own.

This IRS exception is available only to married couples when one of the spouses is not employed or does not have enough income to contribute the full amount allowed by the IRS to an IRA. For example, in cases of stay-at-home parents, individuals who are between jobs or out of work, or individuals who work only part-time, the working or higher-earning spouse can provide IRA contributions on their partner's behalf.

Note that a spousal IRA is not a joint IRA. Per IRS regulations, an IRA can only have one owner. A spousal IRA, then, would be opened in the non-working spouse's name and owned by that spouse as well. However, contributions can be made from money earned by the working spouse or from money held jointly by the married couple.

Are there any caveats to spousal IRAs?

Spousal IRAs behave almost identically to IRAs, with two caveats.

1. When filing taxes, spouses must file as "married, filing jointly" to allow for contributions to a spousal IRA.
2. The total amount of money contributed to a spousal IRA and an individual IRA owned by the working spouse cannot surpass the amount of income that the working spouse earned in a given year.

Are there different types of spousal IRAs?

As with individual IRAs, spousal IRAs can be designated as either traditional or Roth depending on household income. Traditional and Roth IRAs are taxed differently.

- **Traditional IRAs are available to individuals who receive any amount of earned income.** If you open a traditional IRA, the contributions may or may not be taxed depending on total household income. Earnings on the money deposited grow tax-deferred, meaning that you are only required to pay taxes on the earnings *when you receive distributions in retirement*. Traditional IRAs are subject to required minimum distributions when the owner reaches the age threshold imposed by law.
- **Roth IRAs are only available to individuals who meet IRS income guidelines.** This type of account allows you to contribute after-tax dollars and therefore does not affect your taxable income at the time of contribution. However, because you already paid taxes on the contributions, your future retirement distributions are tax-free. Roth IRAs are not subject to required minimum distributions regardless of the owner's age.

In 2024, the maximum annual contribution allowed to any IRA is $7,000 (or $8,000 if the owner of the IRA is age 50 or older). While this amount is much lower than the contribution limits for employer-sponsored retirement accounts, there isn't a tax-advantaged alternative to a spousal IRA. Instead of being solely reliant on their spouse when they reach retirement age, a spousal IRA gives the non-working spouse a source of their own income in retirement and provides a safety net in cases of divorce. It also provides a way for couples to collectively save more for retirement.

It's almost always a good idea to boost retirement savings, and if a working spouse has the extra income to allow contributions to an IRA on behalf of their non-working spouse, it can make for a more enjoyable retirement for both. Remember, it's not about timing the market, it's about giving money time in the market to grow.

If you have questions about retirement accounts and saving for retirement, Navy Mutual's educators can help. They can be reached by phone at 888-298-4442 or email at Education@NavyMutual.org.