Here’s a Brilliant Way for Stay-at-Home Parents to Save for Retirement

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Lots of people have jobs where they don’t earn any income. Think stay-at-home parents.

These people may want to retire someday, but because they don’t have earned income, they don’t have access to traditional retirement savings options like a 401(k) or IRA.

If they’re married, a spousal IRA could be an option.

A spousal IRA gets around income requirements by allowing a working and income-earning spouse to make a contribution in the name of the spouse who earns little or no income.

How a Spousal IRA Works

There is no special account for a spousal IRA. It’s just a regular or Roth IRA in a spouse’s name.

“The term spousal IRA really doesn’t mean anything other than you are taking the working spouse’s income and using it to contribute to the non-working spouse’s IRA,” said Jeff Pedersen, a Sioux City, Iowa-based certified financial planner and vice president of private wealth management for Baird. “When you open up an account and it’s an IRA, it’s either a traditional IRA or it’s a Roth IRA. It’s not titled a spousal IRA.”

Each spouse needs to have their own IRA; they cannot be joint.

“All retirement accounts cannot be co-owned,” Pedersen said. “So if a person made one for their spouse, that account is wholly owned separate account, owned by their spouse.”

Even though the accounts must be separate, the married couple can share the distributions once they reach retirement age. Spouses can also be beneficiaries on the other’s account.

To contribute to a spousal IRA, a couple must file their taxes as married filing jointly.

“Since you have earned income in order to make that IRA contribution, the only way you can do that is to utilize the working spouse’s income for that contribution,” Pedersen said. “If you’re filing separately, now there is no working spouse’s income because one tax form is going to show zero income.”

If you contribute to traditional IRAs and your adjusted gross income is between certain IRS thresholds, the amount of the contribution is tax deductible.

For tax years 2019 and 2020, a couple can contribute $12,000 ($6,000 for each person) to IRAs annually if they are younger than age 50. For those 50 or older, the contribution limit is $14,000, or $7,000 each.

The working spouse’s income must equal or exceed the total amount of the contributions for both spouses. You cannot contribute more than you earn.

It is possible to make contributions to a spousal IRA up to the April tax filing deadline even if the calendar year is over.

Why Contribute to a Spousal IRA?

A spousal IRA helps accelerate a couple’s savings for retirement. The amount of money necessary for retirement varies depending on the couple’s lifestyle.

“So let’s say for example, you put $6,000 a year away and earn a 6% return on it. After 25 years, you would end up with more than $330,000,” Pedersen explained.

Pedersen said there is only one main drawback to a spousal IRA.

“The biggest drawback is the fact that your $6,000, you no longer have access to spending that as income currently,” Pedersen said. “But as long as it’s something that a person can budget for, there’s really not a drawback to it.”

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.