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FEBRUARY 14, 2022

Happiness Is a Spousal IRA

By Sarah Holden

As Valentine's Day approaches, many wonder how to best express their love. Sure, dozens of roses, chocolates, or a Shakespearean sonnet would bring happiness this Valentine's Day, but you might want to consider—whether for yourself or your spouse—a contribution to an individual retirement account (IRA). Nothing is more romantic than a secure financial future!

These popular retirement savings accounts are used by about 48 million US households to grow and maintain their savings, and our research shows that Americans have more than $13 trillion in assets invested in these accounts. Traditional IRAs are the most common type of IRA, although Roth IRAs have been increasing in popularity.

Happiness Is Opening an IRA

It's not too late to contribute to an IRA for the 2021 tax year. You're allowed to make contributions until Tax Day in mid-April, and a tax-deductible contribution could reduce your 2021 tax bill.

For the 2021 tax year, individuals are limited to $6,000 in total contributions across all traditional and Roth IRAs. Those 50 or older can contribute an additional $1,000 (a "catch-up" contribution). Significantly, due to a recent law change, individuals older than 70 can now contribute to traditional IRAs.

Although IRAs have contribution limits, they offer a choice: you can pay taxes now or later. Contributions to traditional IRAs are tax-deferred (subject to certain limits)—that is, no income tax is paid until you withdraw money from the IRA. In contrast, contributions to Roth IRAs are taxable, but no taxes are paid when you make a withdrawal (subject to certain restrictions).

Happiness Is Sharing Your Earnings

If married, you can use your earnings to contribute to either a traditional or Roth IRA for your spouse, in his or her name, to increase tax-advantaged retirement savings for your family. As the IRS explains:

> Kristin, a full-time student with no taxable compensation, marries Carl during the year. Neither of them was age 50 by the end of 2021. For the year, Carl has taxable compensation of $30,000. He plans to contribute (and deduct) $6,000 to a traditional IRA. If he and Kristin file a joint return, each can contribute $6,000 to a traditional IRA. This is because Kristin, who has no compensation, can add Carl's compensation, reduced by the amount of his IRA contribution ($30,000 – $6,000 = $24,000), to her own compensation (-0-) to figure her maximum contribution to a traditional IRA.

Happiness Is Choosing Investments

You can open an IRA with the assistance of investment professionals, such as those at full-service brokerage firms, banks or savings institutions, independent financial planning firms, or insurance companies. You can also go directly to a mutual fund company or use a discount brokerage firm. In 2021, three-quarters of traditional IRA–owning households held their IRAs through investment professionals, and about three in 10 went directly to a mutual fund company or discount broker.

The next step is to decide your investment style. If you're a do-it-yourself type of investor, you can decide from a wide range of investments, including exchange-traded funds (ETFs), mutual funds, and closed-end funds—index or active, domestic or international, equity or bond focused—as well as individual stocks and bonds and bank deposits.

If you'd rather leave the asset allocation and rebalancing to an investment professional, target date funds may be worth considering. A target date fund (also known as lifecycle fund) typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. The target date is your expected retirement date.

Happiness Is Walking Hand in Hand

As this Valentine's Day approaches, consider treating yourself or your spouse to an IRA contribution. Saving for retirement is an important household financial goal and contributing to an IRA is a good step toward providing for walking hand in hand in those later years.

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Want to know more about IRAs and see which of these options are available to you? Check out ICI's IRA resources, FINRA's IRA Basics, or the IRS website. Many mutual fund sponsors have great educational material as well.

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