Money and You: Nonworking spouses can save for retirement, too

by Carrie_Schwab_Pomerantz

While many people think of April 15 as the dreaded tax deadline, I like to look at it in a more positive light. I think of it as the retirement savings deadline. That's because April 15 is the last day you can make your IRA contribution for the previous year. So if you haven't made your 2008 contribution yet, you still have time. And so does your nonworking spouse. That's right. Even if your spouse has no earned income, he or she can still contribute to a Spousal IRA, effectively doubling your retirement savings power.

Sounds simple enough on the surface. And ultimately it is. But here are a few specific things you need to understand to make certain you're getting the full tax benefit-and saving up to the max.

What is a Spousal IRA?

A Spousal IRA is a tax-advantaged retirement account designed specifically to allow contributions to be made by a working spouse on behalf of a nonworking spouse. Under current laws, if you are married filing jointly, you can contribute the maximum into an IRA for each spouse â€” even if one of you has no earned income â€” as long as the working spouse has income equal to both contributions. Otherwise, a Spousal IRA is the same as any other IRA.

How much can you contribute?

The contribution limit for a Spousal IRA is the same as for a regular IRA: $5,000 for tax year 2008. And the catch up contribution is also the same: an extra $1,000 if you're 50 or older.

So you and your nonworking spouse can contribute a total of $10,000 for '08 ($12,000 if you both qualify for the catch-up) as long as you have an income equal to or greater than the total contribution.

Is it deductible?

If the working spouse does not participate in a retirement plan at work, the contributions for both spouses are tax-deductible â€” regardless of your income (as long as you have sufficient income).

If the working spouse does participate in an employer-sponsored plan, it gets a bit trickier because the rules vary for each spouse depending on yearly income. Here are the basics:

â€” Nonworking spouse. For 2008, a nonworking spouse's IRA is deductible for married filing jointly if the couple's adjusted gross income (AGI) no more than $169,000. Deductibility is phased out with an AGI of between $159,000 and $169,000 ($166,000-$176,000 in '09).

â€” Working spouse. For joint filers, the deductibility of the working spouse's contribution in '08 is phased out with an AGI of between $85,000 and $105,000 ($89,000 and $109,000 in '09).

As with most tax issues, it's always wise to consult with your tax advisor to determine how these limits apply to you.

What about a Roth IRA?

You can also fund a Spousal Roth IRA depending on your income. To qualify for a Roth IRA for 2008, a couple cannot earn more than $169,000. And, similar to a traditional IRA, eligibility phases out with an adjusted gross income between $159,000 and $169,000. These limits also go up in 2009.

Remember that a contribution to a Roth IRA is made with after-tax dollars and is never deductible. On the positive side, however, withdrawals are tax-free. Depending on your income now â€” and projected future income â€” a Roth might make sense for you and your spouse.

Make your money work for you.

Saving for retirement should be one of your top goals, no matter what your current work status. So whether one of you is a stay-at-home mom or dad, has decided to take a break from the everyday work world, or has had a change in job status because of the economy, don't take a break from saving for the future. With a Spousal IRA, if you're married and filing jointly you can still continue to work together on your retirement savings â€” and take maximum advantage of the potential for tax-deferred growth.

What happens when the nonworking spouse goes back to work? Not a thing. He or she can keep contributing to the IRA because, once opened, a Spousal IRA is an Individual Retirement Account like any other. If you can afford it, a Spousal IRA not only makes sense, it's essential for your future well-being. So don't wait. Open and fund your IRAs before April 15th for 2008 â€” and while you're at it, plan ahead and get a jump on 2009.

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