

How Much Should I Save for Emergencies?



It's always a good idea to save some cash for a "rainy day." After all, you've worked hard to keep your financial strategy on track, right? An unexpected expense could easily derail that strategy. That's why it's so important to prepare for unexpected events or expenses, like:

- A job loss or early retirement
- Large housing or auto repairs
- Expenses related to child care or aging parents

Creating an emergency fund

One way to prepare financially for things like these is by creating an emergency fund. Though putting money away to prepare for the unexpected can be hard, especially if you don't know how much you'll need.

As a starting point, consider saving:

- **If you're still working** - between three and six months' worth of living expenses
- **If you are retired** - up to three months of living expenses for emergencies, as well as about 12 months' worth of living expenses (after accounting for outside sources of income) to provide for your everyday spending

Why the ranges? If you're employed, these guidelines factor in the average length of unemployment – four months – as well as the potential for other needs. If you're retired, you face many of the same potential emergencies (excluding a job loss) – except you are now also responsible for creating your own "paycheck" for your everyday expenses. Regardless of whether you're working or not, you may also want to look into your access to a personal line of credit. It can help you supplement your emergency savings if the need arises.

How much should I have in cash for other USES?

While you might think "the more, the better," that isn't necessarily the case. Having too much of your savings sitting in cash can be an issue, especially when you're investing for long-term goals such as retirement. Ultimately, your cash strategy can be a key factor in your long-term financial success. To determine the role of cash in your financial life and how much you should have, look at your "USES":

- **Unexpected expenses and emergencies** – cash used for situations such as a job loss, a home repair or an unplanned medical expense
- **Specific short-term savings goals** – cash dedicated for a goal that will occur within the next year or so, such as a wedding or vacation
- **Everyday spending** – cash used for your lifestyle and day-to-day spending needs, such as groceries, utilities, mortgage and debt payments, and entertainment
- **Source of investment** – cash used as an asset class and as a source for investment opportunities

	Pre-retirees	Retirees
Unexpected	Three–six months of living expenses; supplemented by access to a line of credit (personal, home equity, etc.)	Up to three months of living expenses; supplemented by access to a line of credit (personal, home equity, etc.)
Specific Short-term Savings Goal	Amount needed is based on your specific short-term savings goal(s)	
Everyday Spending	One–two months of living expenses ("refreshed" by your next paycheck)	12 months of living expenses (excluding outside sources of income)
Source of Investment	0%–10% of fixed income (which is generally 2%–3% of your investment portfolio)	