

Knowledge is Power

August 2020 Question of the Month

“Hi, Brian. My husband and I are retiring at the end of this year. We have always had some money in an emergency fund throughout our working years. Is it necessary to have this emergency fund in retirement since most of our money is now liquid, in IRAs and such? Thank you.” Teresa

Hello, Teresa. An emergency fund is exactly what it sounds like – a fund that you keep liquid in cash in case money is needed for an emergency. And of course, an emergency can come up at any time, even in retirement.

Financial emergencies in retirement can be different from those that occur during your working years. This is mainly due to the fact an emergency fund is generally established, during your working years, to protect you if you lose your job. Standard advice is that an emergency fund during your working years should be large enough to cover six months of expenses if you lost your job.

Of course, in retirement you don't have that worry anymore. However, different types of emergencies can arise in retirement where money can be needed in a hurry. You still might need a new roof, need to help a family member, or deal with a medical issue. So you need an emergency fund in retirement to account for things like these.

Now, I certainly understand your point that you can access most of your retirement savings now, and you could withdraw that money if an emergency arises. However, many times the majority of retirement money is positioned in different types of investments, such as fixed and variable. This means that depending on market conditions, it may not be a good time to withdraw that money in a split second. So it is still wise to have a portion of your retirement savings in a cash position for emergencies or other potential needs that could come up at any time.

So, bottom line, you still need a financial reserve in a cash position to serve as a buffer for whatever life throws your way. To get the answers to many more retirement-related questions sent in from our listeners, join me this weekend on The Retirement Money Matters Show. The show airs on Saturday afternoon at 4 on WFRN (93.7 FM), Sunday morning at 8 on WWKI (100.5 FM), or online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.