

T.RowePrice

Emergency fund planning: How much cash should I have on hand?

Make Your Plan

Key Insights

- An emergency fund can serve as your personal safety net during periods of financial stress.
- While you're working, we recommend you set aside at least $1,000 for emergencies to start and then build up to an amount that can cover three to six months of expenses.
- When you've retired, consider a cash reserve that might help cover one to two years of spending needs.



Judith Ward, CFP®
Thought Leadership Director

The events over the last few years certainly illustrate how life can throw you a curveball. At the same time, stock market volatility continues to be a concern for investors. These circumstances can throw a wrench into your current budget and make you anxious about the longevity of your retirement savings.

For years, financial experts have stressed the importance of an emergency fund for such events during an individual's working years. When you retire, however, those savings are more of a "cash cushion" to have alongside what you need to fund your daily living expenses.

Whether you are currently working or in retirement, having cash on the side can serve as your personal safety net during periods of financial stress.

If you are still working:

The primary purpose of an emergency fund is to keep your financial and savings goals on track should you lose your job or expect a change in income for a brief time. It can also help cover large, unanticipated expenses that you may not have included in your budget. Having this money handy can save you from putting unexpected expenses on a credit card or taking money out of retirement accounts—and likely paying taxes and penalties as a result.

> "The primary purpose of an emergency fund is to keep your financial and savings goals on track should you lose your job or expect a change in income....

For starters, try to save $1,000 immediately for emergencies. Then, gradually build up to an amount that can cover three to six months of expenses if you are in a two-income household. If you only have one income, or your income is less predictable—such as with freelance or commission-based work—you may want to set aside enough for six months or more.

After you tap in to this account for an emergency, make sure you start building it up again.

If you are retired:

Retirees may view their need for available cash differently. They think of this as money separate from the savings and checking accounts used for daily and regular spending. It's more like a cash cushion than an emergency fund. One of my friends refers to this as his "sleep at night money."

The cash cushion can be in a savings account or money market account or in other short-term investments such as short-term bond funds, short-term certificates of deposit, or tax-free short-term funds. The latter makes sense if you are in a higher tax bracket. Keep in mind that, unlike bank products, investments in mutual funds are not FDIC-insured and are subject to the loss of principal.

This money can be used as an alternative to fund living expenses if there is an extended down market. You can draw from this account instead of having to sell investments at an inopportune time and locking in a loss. For example, remember that the global financial crisis in 2009 lasted about one-and-a-half years and took four years to recover.

While a four-year recovery may seem alarming, keep in mind that many retirees do not have all their investments in the stock market. At retirement, we suggest taking a more balanced approach in your portfolio allocation, with 45% to 65% in stocks. A hypothetical portfolio that was composed of 60% stocks and 40% bonds during the global financial crisis bear market recovered within two years.[1] Of course, past performance is not a reliable indicator of future performance.

Given this backdrop, it may be reasonable that a contingent cash account, or "cushion," should cover one to two years of living expenses in addition to accounts used for regular spending.

For both workers and retirees, a financial shock or a declining market environment can be emotional and cause anxiety. Having cash on the side—outside of your retirement accounts—can help you maintain control and weather these periods of uncertainty.

> "Having cash on the side—outside of your retirement accounts—can help you maintain control and weather these periods of uncertainty.

[1] Stocks are represented by the S&P 500 Index. Bonds are represented by the Bloomberg U.S. Aggregate Bond Index. The evaluation period for stocks from peak to trough to recovery was October 2007 through March 2013. The evaluation periods for a 60% stock/40% bond portfolio from peak to trough to recovery was October 2007 through December 2010.

INVEST WITH CONFIDENCE®

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Important Information

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of February 2025 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types, advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy. **Actual future outcomes may differ materially from any estimates or forward-looking statements provided.**

Past performance is no guarantee or a reliable indicator of future results. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc., distributor. T. Rowe Price Associates, Inc., investment adviser. T. Rowe Price Investment Services, Inc., and T. Rowe Price Associates, Inc., are affiliated companies.

© 2025 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

ID0007905
202502-4256875