Abstract: Back in 2020 when the COVID-19 pandemic first hit, many people's emergency funds were suddenly put to the test. Now, presumably with the benefit of some hindsight, the financially savvy might want to reconsider their approach to saving. This brief article discusses some key points to keep in mind.

Reconsidering your personal emergency fund

Back in 2020 when the COVID-19 pandemic first hit, many people's emergency funds were suddenly put to the test — assuming there was a fund at all. Now, three years later, and presumably with the benefit of some hindsight, you might want to reconsider your rainy-day savings. You've probably heard that, to guard against an emergency, you need to save enough to cover three to six months of living costs. But this rule isn't as straightforward as it may sound.

An emergency cushion is indeed important — and it's certainly better to be conservative rather than cavalier when estimating your financial requirements. However, believe it or not, there may be a danger to saving too much in certain savings vehicles. For example, if you put away substantially more than you'll reasonably need in a low-interest savings account, you may lose money to inflation over time. Plus, you might miss out on opportunities to invest those funds in tax-advantaged retirement accounts or other assets.

Instead of blindly following a rule of thumb, tailor your emergency savings to your financial situation. A smaller emergency fund may suffice if, for instance, your spouse has a reasonably secure job, you have relatives who can provide financial assistance in a pinch, or there's reason to believe that you'd be able to find other work quickly if you lost your job. Conversely, if you're the sole breadwinner or you simply have a low tolerance for risk, a bigger emergency fund may be appropriate. Our firm can help you find the right balance.