

RETHINKING RETIREMENT

Do You Still Need an Emergency Fund as You Get Older?



Most people approaching retirement have a number of resources to tap if they need money.

By Jane Bennett Clark, From *Kiplinger's Personal Finance*, July 2016

[Follow @JaneBClark](#)

In January, I started contributing the maximum to my retirement accounts, to the tune of \$24,000 a year to my 401(k), including the catch-up contribution for people 50 and older, and \$6,500 to my Roth IRA, including the catch-up. With only so much money to go around, I've had to skimp on putting money into my emergency fund, which is in a savings account earning squat anyway. But lately, I've wondered: Why do I need an emergency fund at all?

SEE ALSO: [12 Ways to Go Broke in Retirement](#)

The standard advice is that you should have enough cash—preferably in a safe, easy-to-access savings account or money fund—to cover three to six months' worth of living expenses, plus maybe an extra amount to cover major expenses, such as a new roof.

I don't have nearly that much in my savings account. What I do have is a hefty sum in my traditional IRA. I'm older than 59½, so if I needed to make a withdrawal I wouldn't pay a penalty. And because I have to pay taxes on the money whenever I withdraw it, I don't see why I shouldn't keep contributing to my 401(k) and let my IRA serve as a backup emergency fund.

Advertisement **Not so fast.** I ran this idea by members of the National Association of Personal Financial Advisors, and most of the respondents disagreed. Not only would I pay taxes, they pointed out, but the withdrawal could also bump me into a higher tax bracket. Plus, I might have to sell investments in my IRA in a down market. And because of the annual limit on traditional IRA contributions (\$6,500 if you're 50 or older), I might never get back to where I was or want to be.

Okay, what about my Roth? You can always withdraw contributions without taxes or penalty, and if you're 59½ or older and have held the account for at least five years, you can also withdraw the earnings tax- and penalty-free. No dice, said the planners. Tapping a Roth undermines one of its biggest advantages: You don't have to take distributions starting at 70½, as you do with traditional IRAs (see [6 Steps to Cutting Your Taxes When You Start Taking RMDs](#)). Better to leave a Roth account intact so

you can deploy after-tax money strategically in retirement or let it grow, says Rob Siegmann, of Total Wealth Planning, in Cincinnati.

Other sources. Borrowing from your 401(k), however, can make sense in an emergency, says Jean Fullerton, a certified financial planner in Bedford, N.H., because you won't take a tax hit on the loan and you're paying the interest to yourself. Generally, you can borrow as much as half of the amount in your account, up to \$50,000. On the downside, you must repay the debt all at once if you lose or leave your job.

Many people my age have one other source of wealth: home equity. A home-equity line of credit (HELOC) from a bank or mortgage lender can be a good option for emergency cash, says Fullerton. If you go the equity-line route, resist the temptation to expand your definition of emergency, she says, and be sure to set up a HELOC before lightning strikes. A reverse mortgage is another way to tap your equity (see [Reverse Mortgages Get a Makeover](#)). You can take the cash as a line of credit and use it as needed, and you don't have to pay it off until you or your heirs sell the house (you have to be at least 62 to qualify).

My take? Most people approaching retirement have a number of resources to tap if they need money. For my part, I have a savings account for garden-variety crises, such as a major car repair, and a home-equity line of credit in case of a disaster, such as losing my job. If the latter were to happen, I'd use the HELOC to fix up my house to sell it, pay off the loan with the proceeds, and buy a cheaper place.

But that's just me. What's your plan?

SEE ALSO: 8 Things Nobody Tells You About Retirement

EDITOR'S PICKS FROM KIPLINGER

How to Get Cash in an Emergency When You Don't Have an Emergency Fund

How to Retire During a Volatile Stock Market

10 Reasons You Will Never Retire

This page printed from: <http://www.kiplinger.com/article/saving/T023-C022-S002-do-i-need-an-emergency-fund.html>

All contents © 2016 The Kiplinger Washington Editors