



Preparing for Financial Emergencies in Retirement

Unexpected expenses can upset even a carefully planned retirement. A major home repair, a new furnace, an expensive dental procedure, or an uncovered medical bill can arrive without warning. When you are working, you may be able to replenish the money from future earnings. Once you retire, replacing money taken from savings can be much more difficult.

That makes a financial cushion particularly valuable in retirement. The goal is not necessarily to keep a huge pile of cash sitting idle, but to have enough readily available money so that an unexpected expense does not force you into debt or require you to sell long-term investments at a bad time.

Emergency Savings Still Matter

Americans are somewhat better prepared for small emergencies than they were when this article was first written in 2018, but millions still have little room for financial surprises.

The Federal Reserve's 2025 survey found that 63 percent of adults could cover an unexpected \$400 expense with cash, savings, or a credit card paid in full at the next statement. That leaves more than one-third who would have to borrow, carry a credit-card balance, sell something, or find another way to meet the expense. Twelve percent said they could not cover the expense at all.

The same survey found that 59 percent of adults had experienced at least one major unexpected expense during the previous year. Vehicle repairs or replacement were the most common, followed by major home or appliance repairs and unexpected medical expenses.

For retirees, those last two categories are especially important. Houses and their owners both tend to require more maintenance as they age.

Don't Expect Social Security to Cover Everything

Social Security remains the financial foundation for millions of retirees, but it was never intended to provide all of a person's retirement income. The Consumer Financial Protection Bureau notes that Social Security replaces, on average, about 40 percent of a worker's income. Pensions, retirement accounts, savings, investments, and other income generally have to fill the gap.

That 40-percent figure is only a broad average, however. The actual percentage varies considerably according to a person's earnings history, claiming age, and other circumstances.

Social Security also should not be considered an emergency fund. Monthly benefits help pay recurring expenses. An emergency reserve is there for the \$3,000 transmission repair, the leaking roof, the broken refrigerator, or the dental bill that wasn't in this month's budget.

Retirement Changes the Emergency-Fund Equation

The traditional advice for working people has often been to keep three to six months of essential expenses in an emergency fund. Retirement changes the calculation.

A retiree with Social Security, a pension, an annuity, and manageable monthly expenses may have a dependable stream of income and therefore need less emergency cash than someone whose retirement income depends heavily on withdrawals from investments. Fidelity now points out that the principal reason for a large emergency fund during the working years—the possibility of suddenly losing a paycheck—largely disappears after retirement. Holding too much money in cash can also sacrifice potential long-term growth.

There is consequently no magic number that every retiree should keep in an emergency account. Consider your dependable monthly income, regular expenses, insurance coverage, condition of your home and automobiles, health-care needs, and other assets that can be reached without major tax consequences or investment losses.

Health Care Can Produce Some Unpleasant Surprises

Medicare provides substantial protection, but it does not make health care free. In 2026, the standard Medicare Part B premium is \$202.90 per month and the annual Part B deductible is \$283. After the deductible, people with Original Medicare generally pay 20 percent of the Medicare-approved amount for most Part B services. Most importantly, Original Medicare has

no annual limit on out-of-pocket costs unless you have additional coverage such as Medigap or enroll in a Medicare Advantage plan, which has its own annual out-of-pocket limit.

Dental, hearing, vision, long-term care, prescription drugs, and services not fully covered by insurance can also produce expenses that retirees should anticipate.

An emergency fund cannot eliminate those costs, but it can prevent an unexpected bill from becoming a financial crisis.

Avoid Selling Investments at the Wrong Time

Your retirement investments are certainly available if a genuine emergency requires them. But they should not automatically be your first source of emergency cash.

The danger becomes particularly apparent during a falling stock market. Selling investments after their value has declined locks in the loss and leaves fewer assets available to participate in a later recovery. Vanguard identifies this as part of "sequence-of-returns risk"—the danger created when withdrawals coincide with poor market performance, particularly during the earlier years of retirement.

Maintaining accessible reserves can give you another source of money rather than forcing you to sell securities simply because the refrigerator and furnace decided to expire during the same week the stock market took a dive.

Consider the Tax Consequences Before Making a Withdrawal

Not all retirement accounts are taxed alike. Money withdrawn from a traditional IRA or other tax-deferred retirement account is generally taxable as ordinary income. A sufficiently large withdrawal can therefore increase your taxable income for the year. Qualified Roth IRA distributions, on the other hand, are generally tax-free.

That doesn't automatically make a Roth IRA the best emergency fund. Money removed from a retirement account is no longer available for future growth, and everyone's tax circumstances are different. Before making a substantial withdrawal, consider both the immediate need and the longer-term consequences.

How Much Should You Keep Available?

Forget the old one-size-fits-all rule. Start instead with a simple list of your essential monthly expenses and the large unexpected expenses you could realistically encounter.

The Consumer Financial Protection Bureau recommends keeping emergency money safe, accessible, and somewhere you won't be tempted to spend it routinely. A separate bank or credit-

union savings account is one straightforward solution. The CFPB also emphasizes that the appropriate amount depends upon the individual's circumstances rather than a universal formula.

A retiree might also distinguish between **emergency savings** and **planned reserves**. A 20-year-old furnace or aging automobile isn't really an unpredictable expense. You know that sooner or later it will need replacement. Setting aside money for those foreseeable costs can keep the true emergency fund available for genuine surprises.

What If the Emergency Is Bigger Than Your Savings?

If an emergency exceeds your readily available cash, don't immediately reach for a high-interest credit card or begin liquidating investments. Take stock of all your resources first.

Start by deciding whether the expense really must be paid immediately and whether insurance covers any portion of it. Then review your checking and savings accounts and other liquid assets. Examine your monthly budget for expenses that can temporarily be reduced or eliminated. Travel, entertainment, restaurant meals, subscriptions, and discretionary purchases can usually be cut more easily than housing, utilities, food, insurance, and health care.

You might also have possessions you no longer need. A second vehicle, recreational equipment, collectibles, jewelry, or other valuable items may provide cash without creating new debt.

If retirement accounts must be tapped, consider the tax treatment of the different accounts before deciding where the money should come from. The SEC's [Investor.gov](https://www.investor.gov) specifically advises older investors to consider both the investment and tax consequences when deciding which assets to sell and when to take withdrawals.

Insurance Deserves an Occasional Review

Retirement is also a good time to review insurance policies purchased many years ago. But don't automatically cancel an old life-insurance policy simply because you no longer have dependents.

An existing policy may have cash value, favorable guarantees, estate-planning purposes, or benefits that would be expensive or impossible to replace at an advanced age. Before surrendering, borrowing against, or replacing a permanent life-insurance policy, find out exactly what you would be giving up.

The same principle applies to homeowners, automobile, umbrella, Medicare supplement, and long-term-care coverage. Periodically review what you have, what it costs, and what financial risks you would have to absorb yourself.

Your Emergency Fund Is a Financial Shock Absorber

Retirement does not end financial emergencies. It merely changes the way you deal with them.

A reasonable cash reserve provides breathing room. It can keep an unexpected home repair from becoming credit-card debt, an uncovered medical expense from forcing an untimely investment sale, or a temporary problem from disrupting a long-term retirement plan.

You don't necessarily need 12 or 18 months of expenses sitting untouched in a savings account. You do need to know where the money will come from when something expensive and unexpected happens.

That is the real purpose of an emergency fund: **not to make emergencies disappear, but to keep them from becoming financial disasters.**