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My wife and I will have \$250,000 in a retirement emergency fund — what's the best way to store that cash?

Alessandra Malito - Yesterday 9:04 AM

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My wife and I will have \$250,000 in a retirement emergency fund — what's the best way to store that cash?

HELP ME RETIRE

Dear MarketWatch,

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How Much Interest Can I Earn Safely on \$5 Million? *Editor's Note: This story originally appeared on [SmartAsset.com](#).*

When people think of their ideal nest egg, many aim for – or hope for – \$1 million. They want a sufficient cushion to carry them and any loved ones through their golden years.

However, that may not actually be enough to cover someone's retirement lifestyle. On the other hand, with \$5 million, you have a genuine pathway to financial freedom, and when invested wisely it can last you your lifetime.

But not all investments are alike. So, if you're wondering how much interest, as opposed to [capital appreciation](#), you will earn on \$5 million, here are some of your options.

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My wife and I are retiring in a few years. By sticking to a budget throughout our marriage, we have been able to live comfortably, while saving sufficiently to secure a comfortable retirement with no debt.

A significant portion of our retirement is invested in low expense mutual funds with a smaller percentage invested in bond funds. We will draw on these funds while the market is in a reasonably stable or



upward trend. My question concerns how best to set up a fund of liquid assets (essentially an emergency

fund) that we can draw on, instead of our investments, to help us to weather any significant downturn in the market or other unexpected expenses.

We decided upon \$250,000 as our emergency fund. We will have this from the equity of the sale of our current home as we downsize (we already own our retirement home). This would cover more than two years of our normal monthly expenses without relying on Social Security. The question is how best to set up this emergency fund. I cannot stand the thought of that much money sitting around not earning interest. But I also want to keep it liquid and want to hedge against a downturn in the market.

The strategy that I am considering is a combination of money market and CD ladder. At the time that I am writing this letter, money-market funds have better return rates than CDs with terms of less than 1 year; 18-month CDs have the highest interest rates until we get to 24- or 36-month CDs. In the case of unexpected expenses, if we have access to \$10,000 per month, we should be fine. So, my thoughts were to put \$70,000 in the money-market fund (around 0.5% APR) and invest \$10,000 per month in an 18-month CD (0.7% APR) every month for 18 months. Then let those 18-month CDs automatically roll over each month. This would initially leave a fund of \$70,000 that we could access at any time, and access to an additional \$10,000 per month every month.

While this is a rather complicated strategy, is there a better way to do this?

Thank you for any other suggestions.

— Trying to Do the Smart Thing in Portland

See: [My parents pay for their retirement community with savings, a pension and Social Security. But 'would homelessness be likely' if they ran out of money?](#)

Dear reader,

It's great that you're taking your emergency fund so seriously. We know just how crazy life can get and how the unexpected could really deteriorate the retirement of someone with or without a financial plan, so kudos to you.

Before we get into how to structure your emergency fund, I wanted to note that some financial advisers I heard from said they actually

thought you might be putting *too* much of your money in an emergency fund. It's not as if having that much money in an emergency fund is the worst thing in the world (it absolutely isn't), but these assets won't be getting you as great of a return as other strategies would.

"It's a very smart idea for working people to have enough cash in liquid savings accounts to cover several months' worth of bills," said Dennis Hunt, a certified financial planner and senior financial adviser at Moisand Fitzgerald Tamayo. "This is to guard against a sudden job loss. In retirement, you can't lose your job, so it's important to have as much of your nest egg working for you as possible."

What you may want to do after speaking with your wife is thinking of how to divide that \$250,000 into what a "real" emergency fund could be and then put the rest in an "ultraconservative bucket," said David Haas, a certified financial planner and president of Cereus Financial Advisors. That way, you still have the easily accessible cash you would need if something were to arise, but the rest of that money you planned to set aside would be working for you, if even only minimally. For something like this, the emergency fund could go into a money-market account, and the ultraconservative bucket would be placed with just a bit more risk in mind.

This is a very subjective matter. If you have enough assets elsewhere to be working for you throughout the rest of your retirement, and having this much money in an emergency fund (however you choose to structure it) will give you peace of mind in your older years, then you have to do what is best for you. And some financial advisers did agree with your assessment. Catherine Valega, a certified financial planner and founder of Green Bee Advisory, said having three years of expenses in cash was great for retirement income planning, since you wouldn't have to tap into an investment account during a downward trend in the markets. She did, however, say you should include guaranteed sources of retirement income, like your Social Security.

There's always the option to work with a financial adviser, who can help you strategize with all of your assets and liabilities in mind.

On to strategies.

A mixture of CDs and money-market funds is good, said Kashif Ahmed, a certified financial planner and president of American Private Wealth, but keep in mind that "not all MM accounts are created equal," he said. "He needs to ensure the CDs are FDIC-insured, and not brokered CDs via a brokerage account." Another consideration is a short-duration municipal bond, fund or exchange-traded fund. "He may pick up more

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living expenses in cash or short-term assets, such as savings and CDs, and then using a bond ladder to provide for at least five to seven years of income. “The rest can be invested in a diversified stock portfolio,” she said. So for example, if you need \$125,000 a year from a bond ladder, you’d put around \$625,000 in bonds to cover five years.

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Bonds are safe, but their values are likely to drop as interest rates rise and will thus erode, Haas said. “Short-term bonds right now will not provide great income,” he said. Alternatives would be using managed futures or a market-neutral strategy to provide low volatility with bond-like returns, or using buffered-outcome ETFs, which are fairly new and mix options strategies and the use of an index, like the S&P 500 Haas said. ETFs are liquid, and there’s usually no tax impact until you sell, he added.

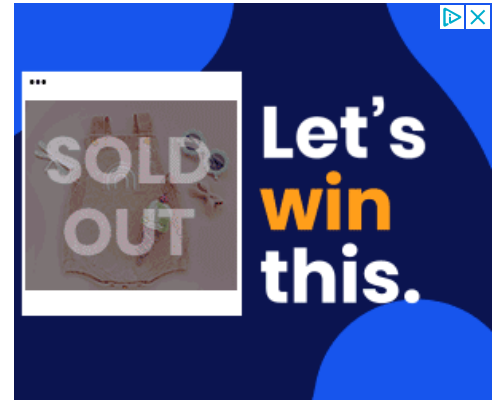
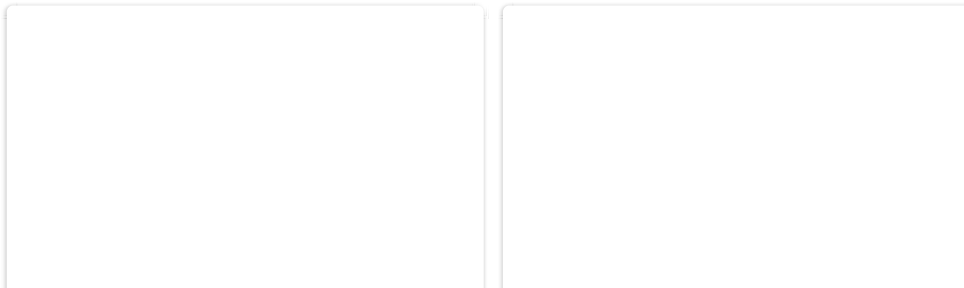
These are just a few more considerations for you, though you seem to be on the right track with your planning. And like I said, there’s always the possibility of working with a financial adviser, who will take a holistic approach and consider your risk tolerance as well.

A note about [inflation](#), since it’s especially hot right now. You are right not to want your money just sitting in a bank account not earning interest, but you also don’t want it to lose spending power. The risk of inflation is highest for people who will live well and longer into their retirements, said Sean Pearson, a certified financial planner at Ameriprise Financial Services. “If you are not keeping up with inflation,” he said, “or you are collecting all interest – you may still have \$250,000 in the bank, but what once might have bought a house or several years of chronic care might be priced out of the housing market, or only cover months of chronic care rather than years.”

Readers: Do you have suggestions for this reader? Add them in the comments below.


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