Rochester Wealth Strategies

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How Much Cash is Too Much?

By Dominic Garcia

Everyone has a different perspective on how much cash they feel is necessary to keep in a savings account. We have seen some people maintain $300 while others maintain $3,000,000 in savings. In realizing that each person has a different comfort level, our goal is to give advice as to what tends to be the most optimal for building and sustaining your wealth.

From an emergency fund standpoint, many people have heard that you need to maintain about three to six months of expenses in cash. This we will agree with. More specifically, if you live in a household with two incomes, then the appropriate amount to maintain in cash would be three months' worth of household expenses. If you live in a household with one income, then six months of household expenses would be the appropriate amount to maintain in cash.

What if you are retired? In this case, the sources of income you have coming in (pension, social security, investment...) are usually more secure. For this reason, three months of household expenses would be more appropriate.

In addition to the three to six-month rule, it also makes sense to maintain cash for any large expenses that you foresee over the next 24 months that will not be covered by your income. Examples of this may include a car purchase, home remodel, wedding, down payment on a house, career change, investment property, business venture, etc.

Please note that when calculating household expenses, you should consider everything: mortgage, insurance, groceries, utilities, gifts, taxes, hobbies, and even your trips to Taco Bell. If you can look back a full year to see how much you spent on an annual basis, then the number should be more accurate. An easy way to do this is to look at both your annual credit card summaries and bank account summaries to see the flows for the year. Once you obtain the annual expense number, then you can simply divide it by twelve to verify how much you are spending monthly.

After figuring out the amount to maintain in savings, it is time to determine how to optimize the leftover. If you maintain any high interest debt, then paying this off is a great first step. You can then use some cash to create an estate plan which may include obtaining a Revocable Living Trust, Durable Power of Attorney, and Healthcare Directives. From there, it may be time to start looking at investments. While some should focus on maxing out their retirement funds and planning for the cost of healthcare, others can focus on creating a legacy for their family and donating to charity. No matter which option is right is for you, tax efficiency must be an important consideration when making decisions to secure your future.

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