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BANKING / SAVINGS ACCOUNT

How Much Money You Should Keep in Your Standard Savings Account, According to Experts



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If you have the lucky problem of trying to figure out where to keep money above and beyond what you need to pay your monthly expenses, you may be uncertain as to how much is the right amount to keep in a standard [savings account](#). Don't fret, and don't make any hasty decisions. Experts have some simple recommendations.

GOBankingRates' Best Banks 2022: [See the Top Banks, Credit Unions and More](#)
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The Gold Standard: 3-6 Months

For those who can, it's a good idea to have a safety net of at least three months of bare minimum living expenses, according to Scott Alan Turner, a certified financial planner with [Rock Star Financial Planning](#). "We hope for the best, and plan for the worst. After COVID-19, many people realized they could lose their jobs for a long time or have their wages whacked in half."

Another reason for a three-month minimum is that should you need to collect disability payments, there can be up to a 90-day waiting period before those benefits become available, Turner said.

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Another perk is that having cash on hand makes it possible to "take advantage of opportunities as soon as they come up," Turner pointed out. Whether that's a sale or a great deal, with cash on hand, "you can get that deal on the spot."

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Enough To Avoid Debt

Though the specific dollar amount will vary from person to person (or family to family), having money in your savings account allows you to avoid going into credit card debt or taking out costly loans, said Adam Wood, co-founder of [RevenueGeeks](#).

He actually recommends saving quite a bit more — for single-income households, having a savings account of 12 months' worth of income, and for two-income households, six months' worth. "Remember that your monthly expenses may not always match your monthly income."

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Enough To Feel Comfortable

The truth is, some people are more comfortable with a higher amount of risk, so how many months' worth of income you have saved comes down to your preference, said Scott Stanley, a certified financial planner and founder of [Pharos Wealth Management](#). "We all feel inherently different about our money—our comfort level varies based on our background, our family history, levels of anxiety, job security, etc. Simply put, if you feel more comfortable with six months, then that is the correct answer for you."

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Save More If Income Is Unpredictable

If you have a job that fluctuates, such as a freelance gig or seasonal work, certified financial planner Kenny Senour of [Millennial Wealth Management](#) recommended having as much as a year's worth of income in savings. However, he recommended not keeping it in a standard savings account and instead said to put it in a high-interest savings account. "Having too much cash on hand causes 'cash drag,' on your overall portfolio and net worth," he said. "Excess cash in your portfolio should be deployed toward other goals like taxable investment accounts or a Roth IRA to allow for additional tax-free growth for retirement."

Options: [16 Effective Ways To Trick Yourself Into Saving Money](#)

But Don't Keep So Much That You Miss Out on Growth Opportunities

Beyond six months' worth of expenses, "you start to rack up quite a considerable opportunity cost," Stanley said. "Savings accounts pay next to nothing right now. The name of the game is beating inflation. You should ideally have money allocated to solid investments that will help you outpace inflation. If you don't, the value of your savings will erode over time and your hard work will be for naught."

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Consider Savings Tiers

If you thought one savings account was enough, Derek Ripp, certified financial planner and partner at Austin Wealth Management, recommended a different approach, dividing your cash into three "tiers." The first tier is for your routine and recurring expenses. "The predictable bills that come in every month." Some people keep the bare minimum, others prefer more of a cushion. He recommended you figure out the lowest number you're comfortable with and make sure that amount is in your checking account.

In the second tier, you save for planned expenses over the next 12 to 24 months, such as a car purchase, home repairs or vacation. "These are expenses you know are coming and can prepare properly for. Don't be tempted to invest this cash while planning for these expenses, since it's best to not take risks with money you know you'll need." The goal here is to pay for large expenses in full when the time comes.

In the third and final tier, you have your emergency fund, which should cover your expenses in case of a lost job or other surprise expenses. "This is money that is designed not to be spent, except in the event of a true emergency."

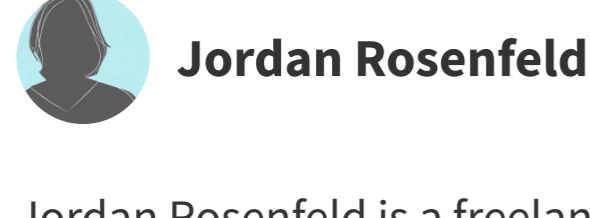
Tier one is a checking account, and tiers two and three are savings accounts. "Regardless of where you bank, you should consider leveraging online banks to earn the most on your cash."

How much you save will ultimately depend upon a lot of very individual and personal factors, but now you have a starting point.

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About the Author



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Jordan Rosenfeld is a freelance writer and author of nine books. She holds a B.A. from Sonoma State University and an MFA from Bennington College. Her articles and essays about finances and other topics has appeared in a wide range of publications and clients, including The Atlantic, The Billfold, Good Magazine, GOBanking Rates, Daily Worth, Quartz, Medical Economics, The New York Times, Ozy, Paypal, The Washington Post and for numerous business clients. As someone who had to learn many of her lessons about money the hard way, she enjoys writing about personal finance to empower and educate people on how to make the most of what they have and live a better quality of life.

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