

Q. I was out of work so I haven't been saving for retirement this year. I do have \$3,500 in a regular bank account and I'm thinking of using it to fund an IRA. I'm also getting a \$5,000 tax refund and I was going to use that to pay off debt and start an emergency fund. What do you think?

A. Your unemployed status should be your priority.

While retirement savings is important, cash, right now, should be your priority.

“Given that the fact that you are temporarily out of work, I would suggest that you set aside at least six months of living expenses in cash in case it takes you some time to find a new job,” said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

You didn't mention whether or not you had health insurance, Aznar said. If you had coverage through work, perhaps you were able to continue the coverage through COBRA. If not, Aznar said, this is something you should look into as soon as possible.

If you're able to cover your living expenses and if you do have health insurance, Aznar said paying off your high-interest credit card debt should be the next priority for your excess cash.

“Once you have done that, the next step would be to ensure that you have a reasonable emergency fund of at least three to six months of living expenses in a liquid account such as a high-yield savings account,” Aznar said.

Howard Hook, a certified financial planner and certified public accountant with EKS Assoc. in Princeton, said while it may be tempting to fund an IRA and start saving for retirement — especially if there is a tax deduction for the contribution — it is more important to first build an emergency fund after paying off your debt.

“Your recent unemployment is a perfect example of why the emergency fund is so important,” Hook said. “Emergency funds should be readily available and easy to access making a money market or savings account at a bank a good choice.”

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