Young family

Like many thirtysomethings, John and Jane Doe have been married a few years; they have two children (aged 3 and 5) and up to now both John and Jane have work full time.

They have no debts on loans or credit cards; they have a house worth £200,000 with a mortgage of £150,000. The current repayments on the mortgage are £800 per month.

After nearly 15 years at his current employer, John who is a marketing specialist is facing redundancy. Jane works full time and currently earns £40,000 a year.

With both incomes coming in they have enjoyed nice holidays and been able to afford a fairly easy lifestyle. Although they both have a small pension fund they have limited savings although John will receive around £20,000 after tax from his employer.

They want to save for their children's education, build up an emergency fund and save for retirement but they know the change in circumstances will make this very hard. They have decided that John will stay at home to look after the youngest child and the good news is that he has been offered some contract work where he can earn around £10,000 a year.

The problem

One word: money. Jane's take home way is £2,250 per month after tax, national insurance and pension contributions. They have budgeted on John bringing home around £750 a month allowing them to put some aside for tax and national insurance but this will be erratic. In addition they have child benefits of around £135 per month. This will give them £3,135. They calculate their outgoings each month to cover the mortgage, and other essentials are £1,875. In addition they calculate they need around £200 a week to cover food, petrol etc. This will leave them with around £400 per month free cash.

John and Jane's finances

Income: £51,755

Assets: £20,000 Redundancy Payment
£5,000 Stocks and Shares ISA
£20,000 – John's Pension Fund
£20,000 – Jane's Pension Fund

Goals: They have three goals:

1. Build up their emergency fund which will also include providing for the children's education should they go to university. They know as a minimum they need £10,000
2. Build a short term cash fund of around £3,000 to cover any immediate expenses
3. Save for retirement. In today's terms they are looking for around £24,000 a year in retirement. They know they will get around £10,000 from the state leaving them with £14,000 to find. Jane's job will pay in total (both employer and employee contribution) 10% of her salary (£4,000 a year) in contributions.

The advice

Save more

The current savings provide a good cushion to start with.

The recommendation is that £10,000 from the redundancy payment is set aside in the emergency fund. A further £3,000 is placed in a cash fund to cover short term cash requirements and the remaining sum is placed in an ISA for John to start saving for retirement.

It is estimated that if Jane worked until she was 65 and based on their requirements there might be a shortfall in income. However, if John has £12,000 in an ISA and starts saving £200 a month this should make up the shortfall. It is estimated over 30 years this will provide a fund of around £200,000 which would cover any shortfall in income.

In addition to this the recommendation would be to put £100 a month into the emergency fund which would provide a sizable fund for the children in 10 plus years' time.

This would leave £100 free a month which could be placed in the cash fund or used to pay down the mortgage quicker.

This plan enables John and Jane to focus on their goals to provide income in retirement, build up an emergency fund for their children and have short term cash savings as well having the potential to reduce down their mortgage quicker.

It is also recommended that the goals are reviewed again in 12 months' time to see how John's income has played out, and again when their youngest reaches school age.

Note: this is purely an example and should not be relied upon as advice. It does not reflect any protection that the family may need.