A YOUNG FAMILY SECURING THEIR AND THEIR CHILDREN'S FUTURE

This case study explores the financial circumstances of a family consisting of Elaine and Nigel, and their two children aged seven and eleven. Elaine, 35, works part-time in education, earning £15,000 annually, while Nigel, 37, works full-time in sales, earning £45,000 per year. They currently have a mortgage with 23 years remaining and an outstanding balance of £183,000. They don't have protection policies or savings but have workplace pensions. Their primary concerns are assessing their pension savings and saving for their children's future, particularly if they decide to pursue higher education. A colleague of Nigel's recommended that he contact us as we had previously helped her with her pension planning.

Income and Expenses

The family's combined annual income amounts to £60,000 (£45,000 from the Nigel's full-time job and £15,000 from Elaine's part-time employment). They maintain a budget to manage their expenses, including mortgage payments, utilities, food, transportation, childcare, and other necessary costs. From this we can assess what their affordability is for any products or services we might recommend.

Mortgage and Debt

The family currently has a mortgage with 23 years remaining and an outstanding balance of £183,000. Assessing the interest rate, monthly payments, and the impact on their long-term financial stability is essential. They currently have a good, fixed-rate deal in place so we make a note of the date this expires and agree to contact them about six months before it's due so that we can help to find the best deal available to them at the time.

Pension Evaluation

Both parents have workplace pensions. Evaluating the adequacy of their pension savings is crucial to ensure a comfortable retirement.

We help them by looking at what the pensions might look like should they carry on saving as they are and what they can do if they don't feel their existing approach will provide sufficient pension income in the future. We provide them with a few scenarios using cashflow modelling. This is a good guide to what they might expect but we explain that this is only a guide as past performance is not a guarantee of future performance.

They are satisfied that their current position and level of pension saving is sufficient, along with the state pension, to give them the lifestyle in retirement that they want.

Saving for the Children's Future

The family is concerned about saving for their children's potential university education. We consider the following strategies:

Education Savings Accounts: We discuss the use of savings accounts in the children’s names such as Junior ISAs and saving in the parents’ names such as ISAs and general investment accounts. Finally, we cover the idea of trusts.

The parents decide that saving into ISAs is the best approach and we help them create plans that will provide help towards the children’s education should they go on to university. Using ISAs in their names allows them to maintain control over the money whilst saving in a tax efficient way.

Mitigating Risks and Protecting the Family

We explain to the couple the benefits of implementing protection policies to safeguard against unforeseen events. These include:

Life Insurance with critical illness cover. Should one or both die or suffer a critical illness this policy will pay them a tax-free lump sum. It will help repay their mortgage or, in the case of a critical illness allow them to adjust their home or car to allow them to continue a similar lifestyle.

We also recommend family income benefit insurance. These policies are designed to pay out a regular payment (usually monthly) to replace someone’s income should they be diagnosed with a terminal illness or pass away.

We weigh-up the benefits and drawback of each policy and arrive at an affordable solution. Luckily, being young and healthy the chances of anything bad happening are lower which is also reflected in the cost. We often find that clients are surprised by how much cover you can get for an affordable monthly payment giving a lot of peace of mind.

Periodic Financial Review

We conduct regular financial check-ups to assess progress towards their goals. These include:

- Annual Review: Revisit and update the family budget to align with changing circumstances, expenses, and income.

- Pension Planning Review: Periodically review pension contributions, projected growth, and whether they are on track to meet their goals and adjust as needed.

- Education Savings Review: Monitor the growth of education savings accounts as with the pensions.

Conclusion

This case study highlights the financial journey of a family with two children, seeking to build a secure future by evaluating their pension savings and saving for their children's education. By assessing the adequacy of their pension savings, implementing protection policies, and adopting smart saving strategies, the family can work towards achieving their long-term financial goals and providing for their children's future education.