Spending wisely after recovering from tough times

By Sarah Max@MoneyDecember 2, 2011: 11:14 AM ET


PHOTO: JOSE MANDOJANA

John and Marlit Stubb, 46 and 48 (with kids Anneliese and Reagan), of Kirkland, Wash.

(MONEY Magazine) -- The recession dealt the Stubb family a double blow: In late 2008, John lost his job in ad sales. Marlit, an auto industry performance manager, was laid off in early 2009.

While John found a new gig quickly, Marlit was out of work for two full years. Going from a combined income of $230,000 to $90,000, "we cut everything we could -- vacations, dinners out and saving for retirement," he says.

Doing so, they just covered their $6,000 monthly expenses out of income. So when Marlit was hired by Chrysler last February, bringing their income to $185,000, they found themselves with a monthly surplus of $2,000, even after restoring retirement savings, meals out, and home repairs.

What to do with that cash has been a source of debate. John wants to save more for **retirement**. Marlit wants to speed up payment of their mortgage. They'd both like to bolster **college funds** for children Reagan and Anneliese, ages 11 and 14. Seattle financial planner Michelle Fait offers a compromise.

THREE FIXES

Get real about retirement

The Stubbs would like to quit in 12 years when Marlit is 60, John is 58 and the kids are out of college.

They're now saving $11,250 a year in John's 401(k) -- he gets a $2,100 match -- and $10,000 in Roth IRAs. At a 6% average annual return, they'll have $1.4 million by 2023.

That won't sustain their lifestyle for 35 years, Fait says. But if they delay five years and John ups his 401(k) savings to $16,500 (an extra $437 pretax per month), they'll have $2.5 million, which should do the trick.

Pump up the cash

Marlit wants the mortgage paid off because she's worried that if she loses her job again, they could lose their house.

Fait says that is unlikely, given how well they navigated the last layoff. So rather than having them tie up money in an illiquid asset, she suggests increasing cash reserves.

Saving $1,500 a month gets them to $70,000 (nine months of current expenses) in 18 months. "This takes some anxiety off the table and gives them flexibility," says Fait.

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Fund college wisely

John and Marlit want to foot at least half their kids' tuition, but have only $31,000 saved.

After shoring up cash, they can redirect part of the $1,500 to college savings accounts, part to a taxable account.

This will allow them to use some of the money for retirement if the kids choose public universities.

Also, by Anneliese's freshman year, they can spend down their reserves to six months of costs since they'll be close to paying off their mortgage.

Where they stand

TOTAL ASSETS: $1,229,000

- **Retirement accounts:** $540,000
- **Value of real estate:** $600,000
- **Cash:** $43,000
- **College savings:** $31,000
- **Taxable accounts:** $15,000

TOTAL LIABILITIES: $135,000

- **Mortgage:** $135,000