ALSO BY SUZE ORMAN

Suze Orman’s 2009 Action Plan
Women & Money
The Money Book for the Young, Fabulous & Broke
The Laws of Money, the Lessons of Life
The Road to Wealth
The Courage to Be Rich
Suze Orman’s Financial Guidebook
The 9 Steps to Financial Freedom
You’ve Earned It, Don’t Lose It
Revised and updated from
Suze Orman’s 2009 Action Plan
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here is no substitute for having an emergency savings account safely tucked away at a federally insured bank or credit union.

None. Do you hear me?

Credit card: no substitute.

HELOC: no substitute.

Money market mutual fund: not a 100% guarantee either.

Notion of job security: I need you to pay attention: Even corporate rock stars got laid off in the recent recession. I don’t care how talented and beloved you are at the office, you can’t tell me that there is zero risk you could be laid off, handed a pay cut, or face an income-pinching furlough.

The New Rules for Saving require you to have real money tucked away at a real federally insu-
ACTION PLAN: Saving

sured bank or credit union. That is the only way you can be certain that you will be able to handle any of life’s unexpected “what ifs” and “uh-ohs.” I have always advocated the necessity of having a real emergency savings fund, but now more than ever, I hope you can see for yourself the dangers of relying on a credit card or HELOC when what you really need is fast cash for an emergency.

Not only must you have a bona fide savings account at a federally insured bank or credit union, you need to fund it to the point where it can support your family for up to eight months. Yes, I said eight months. Yes, I know that is a long time and a lot of money. But don’t try to tell me that is an unreasonable scenario. You need to appreciate that eight months is what it realistically takes to truly protect you and your family. If you are laid off it can take awhile to find your next job; as I write this in the fall of 2009, the average time to land a new job is six months. If you are facing a furlough or a year without a bonus, or if, God forbid, someone in your family falls ill, you handle all of that by knowing you have an emergency reserve you can tap.

I recognize it may take you months, perhaps even a few years, to fill your emergency fund up to my eight-month requirement. The call to action is that you must start saving—or saving more—today. Not tomorrow. Not next month. Today.
You also need to understand how to keep your savings safe. That starts by making sure your bank or credit union is part of the federal insurance program that guarantees repayment of every penny deposited no matter what happens to the institution. Through 2013, up to $250,000 per person is fully insured at participating banks and credit unions; you can qualify for even more coverage depending on the types of accounts you have.

Safety also comes from prudent investment choices. As of fall 2009, bank savings and CD accounts offer yields of 1%, 2%, or maybe 3% if you’re lucky. Not much, I know. But listen to me, there is no choice in this matter: You must keep the money safe. Do not move your emergency savings into the stock market in search of higher returns. You do not chase higher returns with your emergency account; you keep it safe and sound.

My hope is that once you build up your emergency savings to the point where it can support your family for eight months, you will make it a permanent piece of your financial portfolio. There will indeed be a time when the credit markets shift and once again credit card limits will be expanded and offers of HELOCs will be extended. That shouldn’t be an excuse to drain your emergency savings and revert to using these quasi emergency funds. That’s just too risky. I can guarantee that at
some point in the future we will once again run into a period when the credit markets retrench. Let’s hope it won’t be triggered by an economic downturn on par with what we experienced in recent years. But the economy is cyclical; there will always be ups and downs. Having a permanent emergency savings stash is how you insulate yourself from the inevitable economic downturns and buy yourself protection for any of life’s unexpected and unpleasant surprises.

**What you must do**

- Make sure your bank or credit union is covered by federal deposit insurance.
- Check that what you have on deposit is eligible for full insurance coverage in the unlikely event your bank or credit union fails. Through December 31, 2013, the general limit has been raised to $250,000 from its previous $100,000, but you need to understand the ins and outs.
- If your savings is in a money market mutual fund sold through a brokerage or mutual fund firm, consider moving your money into the Treasury money market fund at that company.
- Build up your savings to cover eight months of living expenses.
- Move all money you need within the next five to 10 years into savings. Money you need soon does not belong in the stock market.
Your Savings Action Plan

**SITUATION:** You don’t know if your bank or credit union is backed by federal insurance.

**ACTION:** Confirm that your bank is part of the Federal Deposit Insurance Corp. (FDIC) program or that your credit union is part of the National Credit Union Administration’s insurance fund (NCUA). You can check a recent statement or swing by the bank or credit union. If you see the FDIC or NCUA insurance logos displayed anywhere on a statement or front door, you are halfway home. Another option is to go to www.myfdicinsurance.gov or www.ncua.gov and use the online tools to confirm that where you save is indeed backed by federal insurance.

**SITUATION:** You don’t know if all of your money on deposit at the bank or credit union is covered by insurance.

**ACTION:** Prior to the credit crisis, each individual had a base guarantee of up to $100,000 per bank. So if you had a checking account, a CD, and a money market, all the accounts were fully insured if their combined total did not exceed $100,000. If you had a joint account, you and the person you
shared the account with were eligible for another $100,000 each of coverage. (The same limits applied for federally insured credit unions.)

The limit for banks and credit unions was raised to $250,000 per person per bank/credit union for 2009, and this higher coverage amount has been extended through 2013. If you have less than $250,000 at any single bank or credit union and that bank or credit union is federally insured, stop worrying. You are fine through 2013.

**SITUATION:** Given that the $250,000 limit is in place through 2013 (it may be extended past that date, but there is no guarantee), you want to know if it is smart to invest $250,000 in a high-rate five-year CD your bank is offering.

**ACTION:** No. You have to understand that currently the $250,000 insurance is good only through December 31, 2013. It may be renewed past 2013, but as of now, we do not know if it will be extended. If you have more than $100,000 at one bank the safest move is to limit your CD purchases to issues that mature before December 31, 2013. That way, if for some reason the insurance coverage reverts to $100,000 in 2014, you will have the flexibility to spread your money among different banks without incurring any early-withdrawal penalties on your CDs.

To be absolutely safe, limit the money you de-
posit at any one bank to $100,000 or stick with a CD that expires by December 31, 2013.

**SITUATION:** You already purchased a long-term CD for more than $100,000 that expires after 2013, and now you’re worried about what will happen if the limits are rolled back to $100,000 in 2014.

**ACTION:** If the limit is reduced to $100,000—and I am not suggesting this is likely, but only a possibility—you can still choose to cash in your CD early. Most banks will dock you with a penalty for an early withdrawal, but it is typically limited to forfeiting some of your interest, not principal.

**SITUATION:** You have more than $250,000 at one bank and are worried your money isn’t 100% covered by FDIC insurance.

**ACTION:** You may still have full insurance coverage, but you need to check that your accounts meet the obscure rules that extend your insurance past the basic $250,000. The quickest and best way to make sure your accounts are fully insured is to go to www.myfdicinsurance.gov and plug your bank info into the easy-to-use calculator. In just a few simple steps you will have verification straight from the FDIC if all your accounts are fully insured. (Credit union members should use the
ACTION PLAN: Saving

NCUA Calculator at http://webapps.ncua.gov/ins/). If you don’t have easy access to a computer, I recommend marching down to your bank or credit union and having them go online with you to verify the level of coverage you have; don’t just take a teller’s word for it. You want to see your account information plugged into the EDIE tool (at a bank) or the NCUA Calculator (for a credit union).

**SITUATION:** You worry that the FDIC or NCUA will run out of money if things get really bad and there are lots of failures. You fear the insurance really isn’t going to be there if and when you need it.

**ACTION:** Rest assured your money is safe as long as it is covered by federal insurance. That insurance is backed by the full faith and credit of the United States government. Please don’t get worked up if you hear or read ominous stories that the insurance funds are running short of money. Here’s the big picture to stay focused on: The FDIC and NCUA can go directly to the Treasury to get any money they need to fulfill their stated insurance promises. And the Treasury will raise any extra money it may need to cover losses that exceed what is already set aside in the insurance funds. There is absolutely no way our government is going to let depositors with insured accounts lose a penny. That promise is one of the pillars of our financial system.
**SITUATION:** You worry that if your bank or credit union fails, your account will be frozen and you won’t be able to pay your bills or get cash out.

**ACTION:** Relax. Typically, when a bank or credit union is taken over by regulators it occurs on a Friday and by Monday everything is open and running as if nothing happened. It is in the best interests of the regulators to make sure depositors have quick access to their money. That’s not only “good business,” it is also how the regulators prevent a panicked run on the banks.

**SITUATION:** Your money is at a credit union and you are wondering if you should move it to an FDIC-insured bank.

**ACTION:** As long as your credit union belongs to the National Credit Administration’s insurance fund (NCUA), your money is safe. The coverage limits and government backing are the same as those at an FDIC-insured bank. There is no need to move your money.

**SITUATION:** You have money deposited with an online bank and wonder if it is safe.

**ACTION:** Check if the online bank says it is part of the FDIC insurance program. Every bank that
ACTION PLAN: Saving

is in the FDIC insurance program—whether online or “bricks and mortar”—is safe. You can check the home page of your online bank; all banks that participate in the program will advertise that fact boldly. But I think it is smart to double-check directly with the FDIC; go to www.myfdicinsurance.gov to verify you are protected, and confirm that every penny is in fact insured.

SITUATION: A stock mutual fund you bought at your bank had a big loss in the bear market. The bank is FDIC insured, so you thought your money was safe.

ACTION: You need to understand that FDIC insurance does not cover investments, such as a stock fund. Federal insurance for banks and for credit unions covers deposit accounts, not investment accounts. A deposit account can be a checking, savings, CD, or money market account. But banks are also allowed to sell investments. Mutual funds are investments. Stocks and exchange-traded funds (ETFs) you buy through a bank are investments. And they have zero insurance. Zero. When you opened the account you probably signed some sort of acknowledgment that you understood this, but those disclosures are easy to miss. And, of course, there was no guarantee that your friendly bank account manager who was excited to have you make the investment took the time to slowly and clearly spell things out.
When you invest in the stock market—whether it be through a fund you buy at a bank, a credit union, a brokerage, or a fund company—you have no protection against bear market losses.

**SITUATION:** Last time I checked, my savings account had an interest rate of 5%, but now it is below 2%. Should I move to a bank offering accounts with higher yields?

**ACTION:** It is always smart to shop around for the best-yielding savings accounts, but you need to understand that banks peg the savings rate they offer consumers to the Federal Reserve’s Federal Funds Rate. In the wake of the recent financial crisis the Federal Reserve aggressively cut the Federal Funds Rate. As I write this in late 2009, the Federal Funds Rate is below 0.25%. So if you are earning more than 1% or so on a regular savings account, that’s actually pretty good. I am all for moving your money to the highest-yielding bank accounts, and you can check websites such as www.bankrate.com for banks that offer the highest savings rates. But if you have a competitive yield right where you are and it is FDIC insured, I wouldn’t make it a huge priority to hunt for an extra 0.25% in yield. But hey, if you have the time and energy to shop around, go for it. Just remember: Only put your money in a bank that is FDIC insured or a federally insured credit union.
**ACTION PLAN: Saving**

**SITUATION:** Your savings are in a money market mutual fund your broker told you was safe, but you wonder if it's as safe as an account at an FDIC-insured bank.

**ACTION:** The short answer is no. A money market mutual fund (MMMF) sold by a brokerage firm or a mutual fund firm is not backed by permanent federal insurance. Only a money market deposit account (MMDA) sold through a federally insured bank or credit union, or a bank subsidiary of a brokerage or mutual fund company, is eligible for insurance.

I know, I know: MMDA, MMMF—why do they have to make it all so confusing?

So just to be sure you have it down straight:

**MMDA:** Sold at a bank or credit union, or through a bank subsidiary of a brokerage or fund company. Eligible for federal deposit insurance.

**MMMF:** Sold through a brokerage firm or mutual fund company. No insurance.

Now, in normal times, an MMMF is considered just as safe as an MMDA. And for decades they were indeed just as stable as an MMDA. But in late 2008 one money market mutual fund ran into trouble because it owned a security issued by Lehman Brothers. When Lehman went bankrupt, the value of that security fell to zero and the money market fund was unable to maintain its stable $1 share value.
Here’s my safe and sound MMMF strategy: Keep your money with the same firm but move it into the Treasury MMMF (every major brokerage and fund company has this option). If your money is invested in U.S. Treasuries, you have nothing to worry about. Your money is backed by the full faith and credit of the U.S. government. There aren’t going to be any defaults in that portfolio. If you don’t have a Treasury MMMF option at your existing brokerage or fund company, then I would consider moving my money into an insured bank deposit, or to a brokerage or fund company that offers a Treasury MMMF. (To be extra safe, I recommend that money you need to pay bills, etc., be moved into a bank or credit union MMDA account. The money market mutual fund that ran into trouble froze investor accounts and then doled out payments in small increments over many months. You need to make sure that money you need quick access to is in fact available. The only way you can guarantee you will have ready access is with an insured bank or credit union account.)

**SITUATION:** You understand why it makes sense to have eight months of living expenses set aside in an emergency savings fund, but there is no way you can ever save that much.

**ACTION:** I am well aware how stretched you are financially. I fully expect that many of you may
ACTION PLAN: Saving

not be able to flip the switch and magically have a bank account that is stuffed with enough money to cover eight months of living expenses. But you must start moving toward that goal. Month by month you must build security for yourself and your family. You may get to the eight-month goal in six months of aggressive saving, or it may take you a few years. That’s okay. The point is that you are moving in the right direction. Every month you will have more security, not less. Check out “Action Plan: Spending” for steps on how to reduce your expenses so you have more money to put toward goals such as this one.

One of the best ways to get on a consistent savings pattern is to set up an automated deposit from your checking account into a savings account. Studies show that once you automate you tend to stick with it; that’s true of bank savings accounts and your 401(k) investing. As the saying goes, set it and forget it.

Now, how much should you have deposited each month? Here’s the goal. Decide how much you can afford to deposit. Now add 20% to that amount. Don’t cheat here. If you were going to set aside $100 a month, commit to $120. If you were going to aim for $500 a month, it’s now $600 a month. Will that be hard? Yes. Will it take some serious spending cuts? Probably. But you cannot afford to be laid back and do what is easy. You must push
yourself as hard as possible to build your security as quickly as possible.

**SITUATION:** You are retired and need safe income, but you can’t live off of 2.5% interest in your bank CDs. What are you supposed to do?

**ACTION:** Keep some of your money in the bank, no matter how low the yield. You must keep your savings safe. I also recommend checking out municipal bonds; as I write, you can get yields of more than 4% on bonds with 15-year maturities. That’s a good deal right now and it does not require you take on the risk of investing in longer-term issues. And please check out my dividend stock strategy in “Action Plan: Retirement.” It may be a smart way for you to earn more income on a small portion of your money that you’re comfortable investing in the stock market.

**SITUATION:** You have a mortgage or a car loan with a bank that failed and you wonder if you need to keep paying it.

**ACTION:** You must keep paying. A bank’s failure does not excuse you from paying your loan.

Very soon after a bank failure, you should receive notice of the bank that has taken over your account. And if all goes well, you will just keep paying exactly as you have, with no disruption.
Now, that said, I want you to keep very careful records of all your payments. If you use online banking, print out each payment for at least six months and tuck them away in a safe place. As I said, the transition should be seamless, but when Bank A takes over Bank B, sometimes the wires can get crossed in the back office during the switchover. So you want to have perfect records to prove any problem is not because you fell behind on payments. If you do receive a notice that you haven’t paid, you have to not only deal with the bank but check your credit reports (go to www.annualcreditreport.com; you are entitled to one free credit report a year from each of the three credit bureaus) to make sure the bank has not mistakenly reported your loan payment as late or delinquent. If it is showing up on your report, you must ride the bank hard to correct the mistake. At the same time, file a dispute with the credit bureau. By law, they must look into the matter and report back to you within 30 days. Don’t take anyone’s word that they will take care of it. You must stay on top of the issue and keep checking (and nudging) to make sure any mistake is cleared up. As I discussed in “Action Plan: Credit,” no one can afford to let their FICO credit score drop. Especially when your bank is the one that has tripped up.

CLICK HERE TO GET STARTED