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# **SUZE ORMAN'S**

# **ACTION PLAN**



**NEW  
RULES  
FOR  
NEW  
TIMES**

**Revised & Updated from *Suze Orman's 2009 Action Plan***

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**Revised and updated from**  
*Suze Orman's 2009 Action Plan*

**SPIEGEL & GRAU**

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# SUZE ORMAN'S

## **ACTION PLAN**

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## ACTION PLAN

# Spending

### **New Rules for New Times**

A welcome outcome of the financial crisis is that it has made very plain the need to return to the values of acting responsibly when it comes to your money. You now understand why it is important to have an emergency savings fund at a federally insured bank or credit union. You now know you need to shift your retirement savings into high gear. You now truly appreciate the urgency of getting out from under the credit card industry and paying off your balances once and for all.

Finally, you get it.

But you have no idea where you will get the money to put toward your newfound financial goals. Many households are grappling with a lay-off. In others, a furlough or a disappearing bonus is squeezing the family finances. Just when you

have all the motivation in the world to take control of your future and build security, it's as if the universe is conspiring against you and making it doubly challenging.

There's no easy solution here. If you aren't making more, you need to create more by spending less. I know many of you are already committed to that fact. Over the past year the national savings rate has increased from less than 1% to more than 4%. It wasn't a flush paycheck that made that possible. It was your own determination to make more out of what you have. There's only one way to do that: *spend less*.

If you are one of those people who've started saving more, good for you. Now just keep it up. The New Rules for Spending say less is more. The less you spend, the more money you will have available to buy the most valuable commodity of all: security.

Don't tell me spending less is unpatriotic. I've heard that from some of you recently. Yes, I am fully aware that roughly two-thirds of our Gross Domestic Product (GDP) is based on consumer spending. I appreciate how important the consumer is to our nation's economic health. But come on—look at where all of that consumer spending has gotten us. An economy that relies on its citizens to overspend is at its core unhealthy and unsustainable. It is nonsense to suggest that to keep the economy growing you must keep spending.

Personal accountability is job one. And there is value in your saving; that money will find its way back into the system. Money you save is money that is available for investment by the institution where you place your deposits. Of course we still need a vibrant consumer to help our economy, but we also need a consumer who is committed to saving too.

The challenge now is to rethink, retool, and reimagine your budget so there is more money left over each month to put toward your newfound financial goals. It is not just scouring the bills for savings, though that's laudable; it may require downshifting your entire lifestyle to a more affordable level.

That's not punishment. On the contrary, it is freedom, my friends. Figure out how to live on less, find ways to save more, and you will be emancipated from the shackles of financial stress. Isn't that all the motivation you need?

### **What you must do**

- Separate wants from needs.
- Get over your guilt that you aren't "providing" for your kids.
- Strike the word "deserve" from the conversation. What you deserve is irrelevant; what you can truly afford is all that counts.
- Try to negotiate better terms on a car loan you can't keep up with.

- Be very careful when asked to cosign any loan, no matter how much you love the person who is asking for your help.

## Your Spending Action Plan

**SITUATION:** You know your family needs to save more, but you have no idea where to start.

**ACTION:** Get a grip on where your money is going. You can't move forward building an honest financial life if you don't first understand where you are today. I want you to slowly and carefully fill out the Household Cash Flow worksheet below. To do this, you need to first pull out a year's worth of bank statements and credit card statements. The amount you put in the right-hand column should be the average cost for the past 12 months.

**WEBSITE ALERT:** *A more extensive version of this worksheet is available for download on [www.suzeorman.com](http://www.suzeorman.com).*

EXPENSES	MONTHLY COST
<b>HOME</b>	
MORTGAGE/RENT	
HOME EQUITY LOAN	
PROPERTY TAX	
INSURANCE	

<b>EXPENSES</b>	<b>MONTHLY COST</b>
MAINTENANCE	
UTILITIES	
Gas and Electric	
Heating	
Water	
Home Phone	
Cellphone	
Cable/TV	
Internet	
MAINTENANCE	
Repairs/Upgrades	
Gardener	
Snow Removal	
<b>TOTAL MONTHLY HOME EXPENSES:</b>	_____
<b>FOOD</b>	
Groceries	
Dining Out/Takeout	
Coffee	
<b>TOTAL FOOD:</b>	_____
<b>CAR/TRANSPORTATION</b>	
Car Loan #1	
Car Loan #2	
Gas	
Maintenance	

<b>EXPENSES</b>	<b>MONTHLY COST</b>
Tolls/Paid Parking	
Car Insurance (total all cars)	
Public Transportation	
<b>TOTAL CAR COSTS:</b>	_____
<b>OTHER INSURANCE</b>	
Health Insurance*	
Life Insurance*	
Disability Insurance*	
Long-Term-Care Insurance*	
Dental Insurance*	
<b>TOTAL OTHER COSTS:</b>	_____
<b>MISC. SPENDING</b>	
Child Care	
Private School Tuition	
Entertainment (Movies, DVD Rentals, Concerts, Sporting Events)	
Hair/Manicures/Pedicures	
Club Memberships	
Computer Equipment and Games	
Clothes	
Gifts	
Vacations	
Medical Copays and Out-of-Pocket Expenses	

\*If these items are taken out of your paycheck, they do not need to be itemized on this worksheet, which tallies expenses against take-home pay.

<b>EXPENSES</b>	<b>MONTHLY COST</b>
Pet (Food and Vet)	
Media Subscriptions (Newspapers, Magazines, Online)	
Charitable Contributions	
Other	
Other	
Other	
<b>TOTAL MISC. SPENDING:</b>	_____
<b>OTHER LOANS/DEBT</b>	
Credit Card 1	
Credit Card 2	
Credit Card 3	
Student Loan	
401(k) Loan	
Bank/Personal Loan	
<b>TOTAL OTHER DEBTS:</b>	_____
<b>MONTHLY SAVINGS/TAX PAYMENTS</b>	
Emergency Savings Account	
401(k) Contribution*	
IRA Contribution	
College Savings Fund	
Self-Employment Tax Payments	
<b>TOTAL SAVINGS/TAX PAYMENTS:</b>	_____
<b>TOTAL EXPENSES (A):</b>	_____

<b>INCOME</b>	<b>MONTHLY AMT.</b>
After-Tax Pay	
Rental Income	
Dividend/Interest Income	
Social Security	
Retirement Income (401(k), IRA, and Pension)	
<b>TOTAL INCOME (B):</b>	_____
<b>TOTAL INCOME–TOTAL EXPENSES (B–A):</b>	_____

**SITUATION:** Your expenses are more than your income.

**ACTION:** Circle every expense in your worksheet that is a “want.” It is imperative to separate expenses that are for true needs (health insurance, the electricity bill) from those that are not crucial for your family to function (gym membership, new clothes, computer games, etc.).

If you do not have an eight-month emergency savings fund, if you have credit card debt, and if you are not saving for retirement, you have no choice but to reduce and even eliminate many of the “wants” your family is spending money on.

This is not supposed to be a comfortable or easy exercise. Cutting down from four manicures a month to three is not going to get you where you

need to go. Your financial security is buried in those expenses. The more you are willing to curtail spending on those expenses, the more money you have to protect your family. The \$25 you don't mindlessly shell out to the kids every week when they head out to spend time with friends is \$100 a month you have to put toward a term life insurance policy that protects them if anything were to happen to you. The \$300 a month you don't spend on the second (or third) car your family can do without is your future retirement security; put that much in a Roth IRA for 20 years and you will have more than \$157,000, assuming your money grows at an annualized 7% rate.

**SITUATION:** You feel guilty cutting back on what you've always provided for your family.

**ACTION:** Decide once and for all if you want to indulge or protect your family.

It really is that simple. If you have credit card debt and no emergency savings, I have to tell you, you do not care about your family's safety and security. All you care about is being the hero who doesn't say no, the bottomless ATM for every desire, expectation, and wish your family has.

That is indulgent. And destructive. Let's walk through this together. You look at your expense and income worksheet, get frustrated, and decide to just continue down the path of overspending.

You ignore the fact that your credit card balance keeps rising. You ignore the fact that you have no emergency savings. You ignore the fact that you have very little saved up for retirement. You ignore the fact that you don't have health insurance because it is just too expensive.

And then you get laid off. Or you get sick. You can't pay the mortgage, and you have no savings to help you in this time of emergency. So the downward spiral begins. You might even lose your home. All because you feel as if you must always give your kids everything they want—and right now. How does that indulge your kids?

Or let's look even further into the future. Twenty years from now, your little ones are going to be adults, working to make ends meet for their own families. Then you come knocking on the door saying you can't afford to support yourself in retirement because you never saved up enough during your prime working years, the years when you made the decision to give your kids everything they wanted. How does that indulge your adult kids?

I appreciate that it may initially be hard to institute new financial priorities and habits in your family. Change is always a process that takes getting used to. But the real problem here is that you think acting responsibly with your money will be punishment for your kids. You think that by slowing down the spending you are taking something away from them. I couldn't disagree more. I see it as protecting

them. When you make the commitment to spend less, you will have more money to put toward what your family needs: lasting financial security.

And I have to tell you: How receptive will your kids be to the change comes down to how you sell it. If you are moping, if they can feel your guilt, they are going to feel lousy. Your kids don't deserve that.

Children are incredibly adaptable, and they are going to take their cues from you. So don't pitch this as a scary time and don't suggest that they are in any way to blame for your problems. In an age-appropriate manner, let them know that you are all going to be fine, but you need to be extra careful with spending and saving to make sure the family is safe during these challenging times. For more advice about how to talk to your kids about money, read "Action Plan: Kids and Money."

**SITUATION:** Even after removing the "wants," you still don't have money to put toward paying off your credit card debt and building savings.

**ACTION:** Look for ways to pay less for your needs. You need a phone, but do you need a home phone and a cellphone? Does your family need the super-deluxe cell plan that lets everyone aimlessly text to their heart's delight, or might you be able to spend \$50 less a month with a scaled-back plan? Have you really, seriously done everything to reduce your utility bills? I am talking about the low-hanging

fruit of inexpensive insulation, unplugging unused electronics, replacing burned-out bulbs with energy-efficient CFLs. I know you have heard all of this before. But you sort of filed it away under “some-day I really should.” That day is here. I bet you can reduce what you spend on your family’s needs by 10% to 20% if you put your heart into it.

### **Insure Big Savings**

Health insurance, car insurance, and home insurance (including renter’s insurance) are three of the most important “needs” for every family. Without question, they are necessary expenses. But there are great ways to lower your insurance premiums. You are not to reduce your level of coverage, but rather, make sure you have taken advantage of every deal and discount possible.

- **Raise your deductibles on all your policies.** You can save 10% or more if you agree to a deductible of \$500 or \$1,000 rather than just \$250. There’s no need to keep a low deductible when you have a solid emergency savings fund that can cover any out-of-pocket expenses.
- **Keep your auto and homeowner’s/renter policies with one insurance company.** You will be eligible for a 10%–20% “multiline” discount.
- **Designate one car as your “low mileage” car;** if

you keep annual mileage below 7,500–10,000 miles, the premium discount can be 10% or so.

- Keep your FICO credit score above 720. Some insurers base the premium rate you are offered on your credit score. The higher your score, the more likely you are to get the best terms on all your insurance.

**SITUATION:** Three years ago, you and your partner agreed you would be a stay-at-home mom, but your partner's commission-based salary has fallen along with the bad economy, so you are stuck putting some expenses on your credit card, knowing you will not be able to pay it off in full.

**ACTION:** Base your financial decisions on what you have today, not what you had in the past. If your family can no longer afford to live on one income, you must consider going back to work.

I say that with great understanding of how hard this will be for you to consider. But remember, your long-term financial security requires making the right and honest choices today. And what is right is not always the same as what is easy. Going back to work when you believe it is far more important to be a stay-at-home parent is an emotionally charged and difficult step to contemplate, but in these tough times, it just might be necessary.

You need to focus on what is best for your children. I believe very strongly that financial security is what's best for your children. And if you cannot honestly keep your family financially secure—by being out of credit card debt, having a hefty savings fund, and keeping your retirement savings on track—you are not doing what is best for them.

Start by considering whether you (or your partner) can take on part-time work to supplement what is coming in from the one income. That may be a way to make more without having to rely completely on child care. But if that doesn't close the gap, you must think about taking on a bigger job. If it needs to be full-time, it needs to be full-time. Maybe not forever, but for now. That is not a punishment. It is a powerful choice to take action to build financial security for your family.

**SITUATION:** You can't afford to pay private-school tuition and invest the maximum in your retirement accounts.

**ACTION:** It might be time to rethink whether public school is the better move for your entire family. Look, I know this is a huge issue, and I am not suggesting you make a decision in the next 15 minutes about whether you can continue to send your 10-year-old to private school. But I also think it is shortsighted to presume that this expense is

untouchable. If you are shortchanging your retirement savings, or if your emergency fund is nonexistent, you really need to think through whether you are doing the best for your child. If your issue is that you do not think your local public schools provide the quality education you want for your children, I want you to take a deep breath and consider moving to a community with a strong public school system. As I said, this is not a quick or easy decision. But I encourage you to at least start giving this serious consideration. Will home values and property taxes be higher in a town with high-quality schools? Probably. But I seriously doubt it will cost you the \$30,000 or more a year it can take to send two children to private school.

**SITUATION:** You lost your job and can no longer afford to make the payments on your family's second car, but you owe more on the loan than you can get at trade-in.

**ACTION:** Call up your lender and see if you can get the loan terms modified. Ideally, you don't want to extend the length of the loan (that will increase your total cost over the life of the loan), but push to see if you can get the interest rate reduced. That will lower your costs. Or perhaps the lender will agree to a temporary period of reduced payments.

**SITUATION:** You just want your car to be repossessed already—you're sick of trying to keep up with the payments.

**ACTION:** If you know you can't afford the car, hand the car back to the lender rather than waiting for repossession. By proactively contacting the lender and giving the car back, you will avoid paying fees charged for repossession. And more important, you will avoid the trauma of having your car towed away from your work or home. You change the dynamic by making an embarrassing act into an act of responsibility.

**SITUATION:** You turned the car back in—or it was repossessed—but you were told you still owed the lender money.

**ACTION:** You are responsible for the difference between what you still owed on the loan and what the lender can recoup by reselling the car. If you can't cover that payment, you did not live up to your financial obligation. Whether you turned in the car or it was formally repossessed, failure to pay the balance will stay on your credit report for seven years.

**SITUATION:** You want to borrow from your 401(k) to keep up with the car payments.

**ACTION:** Do not touch your retirement savings. If you need to keep the car or you want to avoid having a repossession on your credit report, you must find other income sources to make the payment. Go back and review the Household Cash Flow worksheet at the beginning of this chapter. If you need more cash, find it from spending less. The absolute worst move you can make is to pull money out of your 401(k). As I explain in detail in “Action Plan: Retirement,” it is never wise to touch your retirement savings. Lose your job and your 401(k) loan will need to be repaid within a few months. Where are you going to come up with that money? That is going to create a big tax bill. Most important, money you spend today is money you won’t have in retirement. Please consider every other possible alternative before you ever raid your 401(k) or other retirement savings.

**SITUATION:** Your eldest child heads to college next year and you’re feeling like this is the last chance to take a long family vacation, even though it probably means putting \$4,000 on your credit card that you won’t be able to pay off immediately.

**ACTION:** You will get no argument from me that family time is a high priority. As you may have heard me say, my mantra is “People First, Then Money, Then Things.” But that doesn’t translate to giving you carte blanche to spend whatever you

want to create those memories. They are not priceless memories. If you need to run up credit card debt to finance the memories, they have a very steep cost: a 15% interest rate, on average.

This is not about what you and your family deserve. We all deserve vacations. What you and your family need is to be safe. An unpaid credit card balance is not safe. Not having an emergency savings fund is not safe. Same goes for no retirement savings. If you haven't taken care of those priorities, you can't afford to take an expensive vacation. Period. That doesn't mean you can't spend time with your family and create lasting memories. Take the vacation—just do it at home, or closer to home, this year.

**SITUATION:** Your daughter is getting married. You have all dreamed of a big wedding, but your investments took a big hit last year and the only way you can afford the wedding is to put it on your credit card. This is a once-in-a-lifetime event, so it's not like you can just say no.

**ACTION:** You can, and must, say no. It is absolutely unacceptable to take on any sort of debt to pay for a wedding. No exceptions. I don't care what anyone dreamed of.

Do you deep down, *honestly*, believe that what you spend is a reflection of your love for your daughter? Do you honestly believe that it is better

to take on \$20,000 in credit card debt to impress your friends, rather than use that \$20,000 for retirement savings? Step back for a moment and put this decision to the Need vs. Want test. What you and your daughter *want* is a big expensive wedding. But all that is really *needed* is an affordable wedding that is full of love.

**SITUATION:** You love giving gifts. It is important to you and something your friends and family have come to expect from you. You can't imagine stopping your gift-giving ways just to have more to save for yourself.

**ACTION:** As wonderful as it is that you give gifts, you and I both know that your friends and family don't love you because of the gifts. If you have yet to build an emergency savings fund that can cover eight months of living costs, you must curtail your gift giving so you can give yourself something far more important: security.

Besides, you are never, ever to buy gifts that you can't afford to pay for immediately. As I explained in "Action Plan: Credit," an unpaid credit card balance puts you at great risk of falling into a costly vicious cycle you will find it hard to climb out of. Worried what your friends and family will think if they don't receive an expensive gift this year? Come on. Do you really think anyone who cares about you would feel

good if they received a gift with an unspoken price tag that said, *This gift cost \$50 that I couldn't afford and means I will not be able to pay off my credit card bill this month?*

**SITUATION:** You are struggling to make ends meet, but you don't want to stop contributing to the charities you have supported in the past.

**ACTION:** Can you give time rather than money this year? I understand how important it is to help those in need. But you have important needs this year too. And it is not selfish to make your financial safety and security a priority. If you need to reduce or suspend your contributions this year to shore up your finances, that's the right and honest move for you to make.

I realize how hard this is, especially when charities are also feeling the pinch and are stepping up their requests for donations. But you must give only what you can honestly afford. If that means no financial contributions, that is okay. I encourage you to donate your time—or more of your time than you already give—to the causes you support. That is a valuable contribution. And to be honest, I think it can also have a great unintended benefit for you: It can be calming and rewarding to focus on what you can do through your actions to make the world a better place.

Now, that said, I also know how upsetting it

can be to curtail helping others in need. Take another hard look at the Household Cash Flow worksheet and see if there are any costs you could pare back to free up a little money to contribute to the causes most important to you. Challenge yourself: “I want to cut \$X a month in savings so I can continue to make charitable contributions this year.” Often, having a specific goal makes it easier to focus on “wants” that you can do without.

**SITUATION:** Your son graduates from college in a few months and needs a car for work. He has asked you to cosign for a car loan.

**ACTION:** If you cannot cover the payments yourself, then you are never to cosign a loan. You need to understand that cosigning makes you legally responsible for the loan; in the event your child can't make the payment, you are expected to come up with the payment. Failure to do so will hurt your FICO score, not just your child's.

And let me define what it means to be able to afford to cosign: You have no credit card debt yourself. You are not struggling to make your mortgage and car payments. Even if you can afford to cover the payments, I want you to carefully consider what you are doing. If your child can't get a car loan on his own, you need to ask yourself why. Is he buying an expensive car when his budget can afford only a moderate-priced car? Is he

focusing only on new cars for their “wow” factor, rather than buying a safe, reliable older car that is more affordable? Is there something the lender knows about his credit score that you don’t—such as the fact that he is already up to his ears in credit card debt? Helping a child who is just getting started is fine, but helping a child who has already abused credit and has no clue how to be financially responsible is not acceptable.

If you decide to go ahead and cosign, I recommend that you be in charge of making the payment. I have seen too many parents cosign and assume their kid is making the payments, only to get a disturbing letter from the lender that the loan is delinquent and everyone’s FICO score has been hurt. I know you are focused on your kid being an independent adult, but if he or she needs your help with a loan, you have every right to oversee the payment.

**SITUATION:** You need a new car, but you don’t want to overreach and end up like your neighbor who had her car repossessed last year.

**ACTION:** Find out what you can afford with a maximum loan term of three years. That’s what you can afford. It makes no financial sense to stretch into a more expensive car if you need to extend the loan term to four or five years. That’s a colossal waste of money. What you need to under-

stand is that a car is a lousy investment. It is guaranteed to lose money; the trade-in value will never cover the purchase price or the interest payments on a loan. Therefore, you want to keep your cost as low as possible by limiting yourself to a three-year loan. At [www.bankrate.com](http://www.bankrate.com), you can see what typical car rates are in your area and use the free calculator to figure out your monthly costs.

And I want to be clear, I am talking about a regular loan. No leases. Not now, not ever. With a car loan, you will eventually own the car free and clear and can drive it for five to seven more years without having to worry about your monthly payment. If you lease, you typically fall into a trap where you just keep rolling over into a new lease every three years. So you are always making payments. Given that we just discussed what a lousy investment a car is, why would you ever choose a never-ending cycle of car payments?

Before you start shopping, make sure your FICO credit score is at least 720. There are indeed great deals to be had, but you need to have a high credit score to get a loan with a reasonable rate. In a slowing economy, where lenders are downright scared to lend, they are going to offer reasonable deals only to borrowers with sparkling credit. In November 2009, a FICO score of 720 or better would make you eligible for a 6% car loan rate. If your score was 620–660, the rate was 13.4%.

I also recommend taking a look at certified pre-

owned cars; these are used cars that come with a limited warranty. Make sure the warranty is from the manufacturer, not the dealership. Given the huge inventory of repossessed cars, you may be able to find an especially good deal on a used car. Sure, right now you might also be able to score a great deal on a new car if you have a solid FICO score. But please remember that the goal is to spend the least amount of money for a car that is safe and meets your commuting needs.

## **THE ROAD AHEAD**

It's time to move forward with strategies that will build security for you this year, next year, and beyond. That requires an understanding of what works now—and what doesn't—in every aspect of your financial life, from credit management to retirement planning to saving for a child's college education. My goal is to give you the tools to thrive—to live a healthy, wealthy life. So let's get started!

**[CLICK HERE TO GET STARTED](#)**