The Newlywed Game

Suze shows a 30-something couple how to make sure big dreams don't turn into nightmares.

MARRIED LAST JUNE, Maria and Victor Martin* are bubbling with plans. Within the next five years, they want to have two kids and upgrade from their recently purchased two-bedroom condo in Chicago. And Maria, 33, an assistant psychology professor, and Victor, 37, who is finishing his doctorate in clinical psychology, are eager to add to the $60,000 they already have in retirement savings. "Marriage, babies, new home, new job—we're on the brink of a lot of beginnings," Maria told me. "I want to make sure we're prioritizing the way we should be."

I love that this couple is looking toward the future. And they have a lot going for them in the present: no credit card debt, both cars paid off, and enough income each month to cover their expenses. But when Maria and Victor contacted me to help plot their next steps, I warned them of some potential obstacles that could block their dreams—especially if the newlyweds don't plan carefully. Here's the strategy I laid out for Maria and Victor:

IT'S TIME TO GET EDUCATED AND TAKE RESPONSIBILITY FOR THE MONEY YOU HAVE.

Take Guidance with a Grain of Salt

When I asked Maria and Victor why they'd bought a condo if they were intending to move within five years, and why Victor's IRA was invested in an account that charges 2.42 percent in fees (anything above 1 percent sets off my alarms), they both mentioned family advice as a big factor in their decision making. In fact, Maria's family helped with the down payment, and Victor's IRA is managed by his parents' financial adviser. (Note to Victor's parents: Get a new adviser!)

It's natural to rely on family for guidance—but sadly, they often know as little as you do when it comes to smart money management. It's time for Maria and Victor to educate themselves and take responsibility for the money they have—and the money they want to have.

Protect the Love of Your Life

Maria and Victor are focused on building a family—yet they're blind to taking care of each other. More than 80 percent of the couple's after-tax income of $5,100 each month comes from Maria's work. So when they applied for a mortgage, it was based only on her income, and she's listed alone on the mortgage. That's not uncommon. But what jumped out at me is that the title to the condo is also in Maria's name only. That has to change and change fast. If anything were to happen to Maria, Victor would find himself in a lengthy and costly legal tangle to keep the home, especially because they have no will or revocable *(continued on page 72)*

*Names have been changed.

PHOTOGRAPH BY ROBERT TRACHTENBERG

(continued from page 70) living trust in place—another item that should be high on their to-do list.

The couple needs term life insurance as well—at a minimum a $250,000 level term policy, to cover the $244,000 they owe on their mortgage. But my advice was to aim for much larger death benefits. At their age, Maria and Victor should both be able to purchase $1 million policies for a combined premium around $150 a month. That's a lot of peace of mind for a low price, and as their family grows, such coverage will be crucial. I pointed them to online term insurance specialists selectquote.com and accuquote.com.

Get Real About Real Estate

A $30,000 gift from family and an $8,000 federal first-time homebuyer's tax credit (in place through spring 2010) were enough to coax Maria and Victor into purchasing a condo last year. But when I asked if they would have bought without the credit, there was a long pause. "That's a good question," said Victor. "I don't really know." His answer was a red flag that they shouldn't have bought (see more reasons in "House Rules," *below*). You should never base a financial decision on a tax break. But with that bad decision already behind them, I urged them to think of their condo as a longer-term home. The kids will be just fine sharing the second bedroom.

Tighten Your Belt Before the Baby

Maria and Victor have about three months' living expenses set aside. That's actually pretty good, considering that Victor's current take-home pay is $900 a month. But I urged them to do better, as they anticipate starting a family. Looking at their monthly expenses, we found a few pieces of low-hanging fruit: Two hundred dollars a month on clothes? I don't think so. Another $155 for hair and manicures? Denied. A combined $825 on food and dining? Not for long.

Fast-track Student Debt

When Victor graduates in 2013, he expects to make about $60,000, nearly quadrupling his monthly take-home pay to around $3,500. Yet he'll also have about $150,000 in student loans. Victor can consolidate these federal loans into one with a fixed interest rate that should be below 7.5 percent. (Learn more about federal loan consolidation at loanconsolidation.ed.gov.) The hard part will be choosing a payment plan. If he pays $1,100 a month, he'll be making payments for 30 years. I just don't think it's smart to be paying off your own loans when your kids are in college. If Maria and Victor commit to $1,800 a month—setting aside money from his new job and expenses they've trimmed—the loans will be paid off in ten years. Bonus: Less debt will mean better mortgage terms when they do eventually move to a bigger place.

When in Doubt, Roth IRA

Maria puts $250 a month into her employer's 403(b) plan, the nonprofit sector equivalent of a 401(k). Her employer will soon begin contributing an amount equal to 7 percent of Maria's annual salary, regardless of whether she puts in anything. I think Maria should stop contributing. Surprised? Here's the logic: She will still get the 7 percent, but a 403(b), like a 401(k), isn't easy to access. We shouldn't blithely take money out of our retirement accounts, of course, but newlyweds have to balance retirement needs against the reality of limited savings. If they had a serious emergency, a withdrawal from the 403(b) could be hit with income tax and a 10 percent early withdrawal penalty. So I'd prefer that Maria (and Victor, when he settles into a full-time job) focus on Roth IRAs. I hope they don't need to touch that money until they retire. But if they do, only the earnings can be taxed and penalized—never the principal. I stressed that long-term, they'll want to fund work-based retirement plans *and* Roth IRAs. But first they need to focus on establishing a firm foundation for what is real right now.

Suze Orman's most recent book is The Money Class: Learn to Create Your New American Dream *(Spiegel & Grau). To ask Suze a question, go to oprah.com/omagazine_talk.*

House Rules

The newlyweds thought buying a condo in 2010 made sense. If they'd come to me earlier, I would have explained why renting was smarter.

1. **CONDOS ARE ESPECIALLY RISKY.** One of the units in the couple's building is now in a short sale, with a price below what Maria and Victor paid. Whatever that unit sells for can become the new "value" for every other comparable unit in the building. Moreover, if one unit goes into foreclosure or a lengthy short-sale process, other owners often wind up shouldering a larger share of common charges.

2. **PRICES CAN ALWAYS DIP LOWER.** Victor mentioned that they bought their unit for well below what it sold for a few years ago. That's irrelevant; all that matters is its current value. They paid $311,000 for their condo last year. Another unit recently failed to sell at $280,000. Suddenly, the great deal they got doesn't seem so great. That doesn't mean I'm against buying today, but I'd bid at least 20 percent below today's fair market value to provide some cushion if prices fall.

3. **A PROFIT MAY TAKE MANY YEARS.** In a normal market, homes should appreciate at about 4 percent a year—but these aren't normal times. And when Maria and Victor eventually sell, they'll likely spend 10 percent of the sale price on the agent's commission and other expenses. That means they need at least 10 percent appreciation to break even, and we can't assume that will happen in the next five years. The good news is, the couple love their condo, so they were open to my suggestion to stay put until a move makes financial sense. —S.O.