

Financial IQ For Beginners Check List

If you find yourself checking fewer than 75% of these statements about yourself and your money, it's time to do a bit of studying on the topic of your own finances.

Income

- I know the difference between gross income and net income.
- I know the difference between active income and passive income.
- I know about alternative income streams.
- I use my spare time to create more streams of income.
- I know what constitutes an asset.
- I earn more than I spend.
- I balance my checkbook each month.
- I know what my net worth is.
- I know how to calculate my hourly worth.
- I know how to calculate the dollar value of each purchase against my worth.
- I know if I pay \$10 for an item, and I make \$10 per hour, the item cost me more than 1 hour of work.
- I have strategies to increase my income every year.
- I have an emergency fund to protect my income.

Expenses

- I know my mortgage specifics.
- I understand the advantages/disadvantages of a mortgage versus renting.
- I know my fixed monthly household expenses by heart.
- I am on a budget payment plan for utilities when possible.
- I budget for flexible expenses each month.
- I leave no line for 'miscellaneous' expenses in my budget.
- I keep track of all cash spent each day.
- I set up a savings 'expense' in my budget on line one.
- I use payroll deduction to make savings automatic if possible.
- I practice the art of frugal living.
- I have shopped around for utilities, insurance, and other household expenses.
- I ask for the cheapest alternatives for medicine.
- I understand depreciation and therefore buy used cars.
- I take advantage of coupons, bartering, and online auction, sales, and trading sites.
- I save money in order to buy large ticket items.

Taxes

- I know claiming too many dependents on my W-4 is like loaning the government my money for free.
- I know it's better to get a smaller tax refund then use withholding as a savings account.
- I know the basics of filing a tax return.
- I know how itemized deductions work on a tax return.
- I know the difference between tax deductions and tax credits.
- I know my tax bracket.
- I know how to donate money to gain a tax deduction and avoid capital gains taxes.
- I find out how each financial move or purchase will affect my taxes.
- I take full advantage of the Flexible Spending Account (FSA) offered by my employer.

Credit Debt

- I always pay my credit card balances in full each month.
- I review my credit report once a year, free of charge, from Equifax, Experian, and TransUnion.
- I know my credit score.
- I take full advantage of credit card reward programs.
- I know how to protect my identity from theft.
- I know in-store credit cards are off limit.
- I know late fees or over-limit charges will snowball into an enormous balance.

Insurance Know-How

- I check each year for better insurance rates using an independent agent or an online source.
- I know to choose the highest deductible possible in order to lower my premiums.
- I take advantage of multiple policy discounts when possible.
- I know that most insurance companies load their policies up with miscellaneous options that are not cost effective.
- I sign on with an insurance company only after I investigate their financial stability.
- I know if I should choose whole life insurance and term life insurance.
- I know how to calculate my out-of-pocket expenses for any and all insurance policies.

Investing Basics

- I know the difference between a 401k and an IRA.
- I know the difference between Traditional 401k and Roth 401k.
- I know the difference between Traditional IRA and Roth IRA.
- I contribute enough to my 401k to get the full company matching contribution.
- I contribute the maximum amount to my IRA every year.
- I know the difference between stocks and bonds.
- I know the difference between a discount broker and a full service broker.
- I know how to calculate return on investment.
- I automatically deposit money to my savings and investments on a regular basis.
- I know how compounded interest works.
- I know that taxes and expenses reduce investment performance.
- I know the difference between taxable investments and tax-sheltered investments.

Financial Future

- I have a financial plan written out with goals clearly defined.
- I have an estate plan and will executed and signed.
- I have calculated how much money I will need after my wage earning years are over.
- I review my needs for retirement and my estate plan each year, or after any lifestyle change.
- I have reviewed my plans with my family, making them aware of my financial status.
- I have a tax accountant and financial planner help me with all important decisions.

Don't worry if you didn't get a lot of these statements checked. There are resources available to help even the least experienced individual. Do your homework and it won't be long before you see your Financial IQ on the rise.