Quiz: Test your money know-how

Now that you've learned more about how to build smart money habits, you're ready to prepare a personal plan for financial success.

Let's put your knowledge to the test with these eight questions!

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QUESTION # 1

When you're shopping around for a competitive savings account, what does "APY" mean?

- ❑ A Automated payments per year
- ❑ B Annual percentage yield
- ❑ C Adjusted percentage rate year-over-year

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THE ANSWER?

B. Annual Percentage Yield, or APY, is the interest rate you'll earn on your money if you leave it in the account for a year and let the interest compound. In other words, it gives you the most accurate idea of what your savings could earn in a year.

So, it's a wise idea to look for a bank or credit union that offers the highest APY, along with interest that compounds daily and no or low fees.

Quiz: Test your money know-how

QUESTION # 2

True or false?

Everyone needs to file an annual income tax return once they reach a certain age.

- ❑ True
- ❑ False

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THE ANSWER?

It’s false. Not everyone is required to file a tax return each year.

Generally, it’s your total income for the year that dictates whether you must file or not. Young single workers in 2020 must file a return if their annual earnings equal $12,400 or more.

That said, there are cases when you might want to file. For instance, if you have federal taxes withheld from a paycheck, the only way you can receive a tax refund when too much was withheld is if you file a tax return.

Quiz: Test your money know-how

QUESTION # 3

If you must borrow to help pay for college, which type of student loan is usually the better deal?

- ❑ Federal student loan
- ❑ Student loan from a bank or private lender

Quiz: Test your money know-how

THE ANSWER?

Federal student loans have a fixed rate, offer flexible repayment terms and, in some cases, a government subsidy for part of the interest. Private-loan interest rates, which are variable, depend on the prime rate or other benchmarks as well as the borrower's established credit rating.

So, it's best to take advantage of federal options first.

Quiz: Test your money know-how

QUESTION # 4

When it comes to managing credit cards wisely, which of the following statements is *false*?

A. When you leave an unpaid balance, you start accruing interest.

B. It's best not to charge more than you can afford to pay off in full each month.

C. If you pay the minimum amount due each month, there's nothing to worry about.

- ❑ A
- ❑ B
- ❑ C

Quiz: Test your money know-how

THE ANSWER?

It’s C. Unfortunately, making just the minimum payment each month is a guaranteed way to be stuck in debt much longer than necessary.

For example, say you have a $1,000 balance on a credit card with a 17% interest rate. If you only make minimum payments each month (at 2% of your balance), it will take more than 11 years to pay it off. And you'd have paid $1,171 in interest alone! That’s real money that could’ve been used for other priorities.

Quiz: Test your money know-how

QUESTION # 5

Which of the following statements about Roth IRAs is *true*?

A. You can withdraw money you contributed to a Roth IRA at any time, without taxes or penalty.

B. You can withdraw earnings on your contributions to a Roth to help pay certain college expenses.

C. Once the money's been in your Roth for five years, you can tap your earnings to buy your first home.

D. All the above

- ❑ A
- ❑ B
- ❑ C
- ❑ D

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THE ANSWER?

Believe it or not, it's D. In fact, for these reasons, a Roth may be an indispensable tool in a young adult's financial life.

Although the purpose of a Roth is to save for retirement – and remember, your money will grow only if you leave it in the account – you can withdraw your contributions (not your earnings) at any time, tax free and without penalty.

If you tap your Roth for a first-home purchase, you can also withdraw up to $10,000 of earnings tax- and penalty-free (if the account's been open for at least five years).

And savings in a Roth can also serve as a back-up fund for paying college bills, too – although you will owe income taxes on the earnings.

Quiz: Test your money know-how

QUESTION # 6

True or false?

It's a good idea for rookie investors to stick with mutual funds and exchange-traded funds that invest in stocks.

- ❑ True
- ❑ False

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THE ANSWER?

It’s true. Because you’re young and have a long way to retirement, you'll want to invest in the stock market to get the highest returns over time. Why should you choose mutual funds or ETFs now?

Three reasons:

- They’re easy to understand.
- You leave the stock-picking to the pros.
- They make it easy to spread your risk around multiple stocks or bonds without putting all your eggs in one basket.

Quiz: Test your money know-how

QUESTION # 7

Are contributions to a traditional 401(k) plan deducted from your salary before or after taxes?

- ❑ Before
- ❑ After

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THE ANSWER?

Your traditional 401(k) contributions are made *before* taxes, reducing the amount of your income Uncle Sam can get his hands on.

Because 401(k)s are tax-deferred investment plans, your money can grow sheltered from taxes for potentially decades. Once you start withdrawing the money in retirement, though, you will owe income taxes on it.

Note: If your employer offers a Roth 401(k) and you contribute, you put in after-tax dollars, but all contributions and their earnings come out tax free in retirement.

Quiz: Test your money know-how

QUESTION # 8

A health savings account is ...

A. The same thing as a flexible spending account.

B. A kind of insurance plan.

C. A way to save for healthcare costs if you have a high-deductible insurance plan.

- ❑ A
- ❑ B
- ❑ C

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THE ANSWER?

It's C. Health savings accounts let people ages 18 or older with high-deductible health insurance policies to make tax-deductible contributions to a special account, which they can use tax-free for eligible medical expenses.

This money can be used for things like your health insurance deductibles, co-payments, medications and other out-of-pocket health-related costs – even that cool pair of prescription sunglasses.