



## A Six-Question Money Quiz

Millennials are the most computer literate generation, and they're used to instant access to all kinds of information. This doesn't mean that they're financially savvy.

Unfortunately, money is seldom taught in public schools. The result is a gap between what millennials know about money and what they *think* they know about the topic. Take this six-question money quiz to gauge your money IQ.

- 1. If your savings account interest rate is less than the inflation rate, will its buying power increase, decrease, or remain the same over time?** Answer: Decrease. Inflation eats away at buying power, and in this case it does so faster than interest boosts it.
- 2. If that savings account contains \$100 and pays 2% interest, will you have more, less, or exactly \$102 after one year?** Answer: More than \$102. Savings accounts pay compound interest, which is interest on interest, and it causes your total interest to increase faster than a flat rate.
- 3. True or false: Buying a single stock is less risky than buying a stock mutual fund.** Answer: False. Mutual funds diversify your risk, so that one bad-performing stock doesn't necessarily hurt your overall performance significantly.
- 4. True or false: A 15-year mortgage has higher monthly payments but lower total interest than a 30-year mortgage.** Answer: True. By paying off the mortgage sooner, more of your money pays down principal instead of interest.
- 5. What typically happens to bond prices when interest rates rise?** Answer: Bond prices will fall. Because the bond interest is fixed, it loses its competitiveness with higher-paying newer bonds, which force down the price so that it produces an equivalent yield.
- 6. Which gives you a bigger tax deduction: a contribution to a traditional IRA or a Roth IRA?** Answer: Traditional IRA. Roth IRAs do not provide tax deductions, but they shield your profits from taxes as long as you follow the rules.

Stock and mutual fund investing involves risk, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

This material was prepared by Deluxe.

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