

## FINANCIAL IQ

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How do you feel about your financial knowledge? In my research, confidence in one's financial knowledge and ability often shows a stronger relationship to best practices in managing money than objectively measured knowledge.

How well do you understand financial issues? If given a test on specific financial questions, do you think you would pass? In recent financial literacy tests, the majority of people answer about 60 percent of the questions correctly. This is not a passing grade.

Understanding many financial matters takes time and experience; it helps to have some financial education as well. Perhaps the better question is how confident are you about managing your finances?

Here are some things to think about: Best practices for managing finances include having an emergency fund, spending within one's means, having a retirement account, and planning for retirement.

- Do you have an emergency fund? If not, do you know how much you might need in an emergency, and could you begin to save for one? It is certain emergencies will occur; it is just uncertain when one will occur. Start an emergency fund with a goal of \$1,000. Then you can begin to save for the recommended three to six months of living expenses.
- Are you spending within your means? If not, how confident are you that you could set up a budget and spend within that? Here are a few guidelines for setting up a budget: spend at or below 30 percent on housing (including mortgage/rent, utilities, and maintenance), 11-12 percent on food in the home, 11-12 percent on car expenses, and about 5-10 percent on other categories such as insurance, entertainment (including eating out), clothing, other miscellaneous expenses, and, of course, saving for that emergency fund. The bottom line: spend less than 100 percent of your income (and save the rest).

- Do you have a 401(k) or a retirement fund to which you contribute regularly? If not, are you confident that you understand the process, could ask your employer, or find a financial advisor to help get this going? Having funds set aside for retirement is important for your future, and getting started now is vital.

Do you know how much you need to set aside for your future? If not, how confident are you that you could figure this out?

You don't have to fully understand complex financial matters to put these best practices into place and be better off for it.

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