Financial literacy cheat sheet

20 terms you should know

Annuity – A contract issued by a life insurance company that guarantees a steady stream of payments at some point in the future. Investors often use annuities to safeguard against the risk of outliving their assets.

Asset – Any item you own (e.g. house, investments, car) that can be converted into cash, as well as any money that is owed to you.

Beneficiary – A person who is named on your life insurance policies or retirement plans to receive the benefit after you die.

Cash flow – Money you have coming in (e.g. salary) and money you have going out (e.g. mortgage payments). Positive cash flow means you have more coming in than going out. Negative cash flow means you are spending more than you earn.

Collateral – Assets you pledge to secure a loan or credit which can be taken by the lender after a period of time if you default on the payments (e.g. a line of credit on your home).

Compound interest – Interest that is calculated on the principal loan amount as well as on any interest that has already accrued. This makes your investments grow faster and is a key benefit of investing at an early age.

Credit rating – An evaluation of your ability and likelihood to make payments or default on a loan or credit.

Credit score – A number based on your credit rating that lenders can use to decide if they will lend you money, how much they will lend you and the interest you will pay on the loan.

Disclosure – An explanation of how a financial product works and what you agree upon if you buy or use it. In other words, the “fine print”.

Estate planning – The process of planning what will happen with your assets after you die. Wills, investment products and life insurance policies are part of your estate plan.

Financial plan – A document that describes your financial goals and what you need to do to achieve them, based on your current financial state.

Insurance premium – A payment you make to an insurance provider in exchange for a policy. Premiums are usually made monthly or quarterly.

Interest – A charge for borrowing money that is usually an annual percentage of the money borrowed.

Investments – Investments include financial products, real estate or other assets which may grow in value, which you put money into in order to help reach your financial goals.

Liabilities – Funds that you owe such as a mortgage, other loans or taxes as well as any interest on them.

Liquidity – The ability to quickly convert assets to cash. Cash is purely liquid but investments or real estate are less liquid because they need to be sold before money is obtained.

Matching contribution – Money your employer adds to your retirement savings account, such as a 401(k) based on a percentage of the money you have put into it.

Permanent life insurance – Life insurance that does not expire and is designed to be in place for the rest of your life.

Term life insurance – Life insurance that is in place for a specific term (e.g. 10 years) and is designed to pay a benefit if you die during the term.

Underwriting – The process an insurance company goes through to decide whether or not to insure you, set the premium and issue a policy. This is usually based on a variety of factors including your age, health and lifestyle.

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