Teaching Your College-Age Child about Money

When your child first started school, you doled out the change for milk and a snack on a daily basis. But now that your kindergartner has grown up, it's time for you to make sure that your child has enough financial knowledge to manage money at college.

Lesson 1: Budgeting 101

Perhaps your child already understands the basics of budgeting from having to handle an allowance or wages from a part-time job during high school. But now that your child is in college, he or she may need to draft a "real world" budget, especially if he or she lives off-campus and is responsible for paying for rent and utilities. Here are some ways you can help your child plan and stick to a realistic budget:

- Help your child figure out what income there will be (money from home, financial aid, a part-time job) and when it will be coming in (at the beginning of each semester, once a month, or every week).
- Make sure your child understands the difference between needs and wants. For instance, when considering expenses, point out that buying groceries is a need and eating out is a want. Your child should understand how important it is to cover the needs first.
- Determine together how you and your child will split responsibility for expenses. For instance, you may decide that you'll pay for your child's trips home, but that your child will need to pay for art supplies or other miscellaneous expenses.
- Warn your child not to spend too much too soon, particularly when money that has to last all semester arrives at the beginning of a term. Too many evenings out in September eating surf and turf could lead to a December of too many evenings in eating cold cereal.
- Acknowledge that college isn't all about studying, but explain that splurging this week will mean

scrimping next week. While you should include entertainment expenses in the budget, encourage your child to stick closely to the limit you agree upon.
- Show your child how to track expenses by saving receipts and keeping an expense log. Knowing where the money is going will help your child stay on track. Reallocation of resources may sometimes be necessary, but help your child understand that spending more in one area means spending less in another.
- Encourage your child to plan ahead for big expenses (the annual auto insurance bill or the trip over spring break) by instead setting aside money for them on a regular basis.
- Caution your child to monitor spending patterns to avoid excessive spending, and ask him or her to come to you for advice at the first sign of financial trouble.

You should also help your child understand that a budget should remain flexible; as financial goals change, a budget must change to accommodate them. Still, your child's ultimate goal is to make sure that what goes out is always less than what comes in.

Lesson 2: Opening a Bank Account

For the sake of convenience, your child may want to open a checking account near the college; doing so may also reduce transaction fees (e.g. automated teller machine (ATM) fees). Ideally, a checking account should require no minimum balance and allow unlimited free checking; short of that, look for an account with these features:

- A simple fee structure
- ATM or debit card access to the account
- Online or telephone access to account information
- Overdraft protection

To avoid bouncing checks, it's essential to keep accurate records, especially of ATM or debit card usage. Show your child how to balance a checkbook on a regular (monthly) basis. Most checking account statements provide instructions on how to do this.

Encourage your child to open a savings account too, especially if he or she has a part-time job during the school year or summer. Your child should save any income that doesn't have to be put towards college expenses. After all, there is life after college, and while it may seem inconceivable to a college freshman, he or she may one day want to buy a new car or a home.

Lesson 3: Getting Credit

If your child is age 21 or older, he or she may be able to independently obtain a credit card. But if your child is younger, the credit card company will require you, or another adult, to cosign the credit card application, unless your child can prove that he or she has the financial resources to repay the credit card debt. A credit card can provide security in a financial emergency and, if used properly, can help your child build a good credit history. But the temptation to use a credit card can be seductive, and it's not uncommon for students to find themselves over their heads in debt before they've declared their majors. Unfortunately, a poor credit history can make it difficult for your child to rent an apartment, get a car loan, or even find a job for years after earning a degree. And if you've cosigned your child's credit card application, you'll be on the hook for your child's unpaid credit card debt, and your own credit history could suffer.

Here are some tips to help your child learn to use credit responsibly:

- Advise your child to get a credit card with a low credit limit to keep credit card balances down.
- Explain to your child that a credit card isn't an income supplement; what gets charged is what's owed (and then some, given the high interest rates). If your child continually has trouble meeting expenses, he or she should review and revise the budget instead of pulling out the plastic.
- Teach your child to review each credit card bill and make the payment by the due date. Otherwise, late fees may be charged, the interest rate may go up if the account falls 60 days past due, and your child's credit history (or yours, if you've cosigned) may be damaged.
- If your child can't pay the bill in full each month, encourage him or her to pay as much as possible. An undergraduate student making only the minimum payments due each month on a credit card could finish a post-doctorate program before paying off the balance.
- Make sure your child notifies the card issuer of any address changes so that he or she will continue to receive statements.
- Tell your child that when it comes to creditors, students don't get summers off! Your child will need to continue to make payments every month, and if there's a credit card balance carried over from the school year, your child may want to use summer earnings to pay it off in order to start the next school year with a clean slate.

Finally, remind your child that life after college often involves student loan payments and maybe even car or mortgage payments. The less debt your child graduates with, the better off he or she will be. When it comes to the plastic variety, extra credit is the last thing a college student wants to accumulate!

Source: Broadridge Investor Communication Solutions, Inc.

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