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7 Financial Talks to Have With Your Kids Before They Start College

Before your children start college, it's a good idea to sit them down and talk about a few things. Time management skills, "responsible life choices" and how to do their laundry can be among them. But don't leave out how to manage their money.

"Often, college students don't realize that their current financial habits and decisions will impact their lives for years to come," says Donna Skeels Cygan, author of "The Joy of Financial Security."

What to discuss before students start college

"And looking back, many wish they'd done things differently while they were in school," Cygan says. "That's why it's so important for parents to sit down with their kids before freshman move-in day and have a serious conversation about good financial habits."

Cygan offers these seven financial conversations to have with your child before they start college:

1. Know college costs before they start college

The longer they're in college, the more money it will cost, so it's a good idea to know before they start college how much a college education costs, while committing to finishing college in four years.

There's a lot of popular "wisdom" for college students along these lines: "Don't rush. Experiment and try a lot of new things," Cygan says. "Take your time figuring out what you want to do. And don't forget to have fun!"

She agrees that college is a great time to explore new areas of interest. But she also believes that college is a time to focus on learning and earning a degree.

"It's all too easy for students to sign up for semester after semester of classes that look fun, interesting, or easy, only to find that they'll need to spend an extra year completing graduation requirements," she says.

"Even during your child's very first semester at college, it's important for her to take class selection, and later on, major selection, seriously. Instruct her to plan ahead and make sure that she's on track to check all of the necessary boxes on time. And make it very clear that the more time she takes to graduate, the more debt she'll rack up.

"Spending five years at college when you could have finished in four is a huge waste of money — so don't buy the line that changing majors several times is consequence-free."

2. Be involved in financial aid process

Make sure your student is knowledgeable about any financial aid they may be receiving, whether it's merit-based scholarships, need-based aid, grants, work study or something else, before they start college, Cygan recommends.

As a parent, your income and assets may be used to base the aid amount on, so fill out the proper financial aid forms and have your student know the terms of their aid and if it will change from year to year.

"Having a direct conversation with the college's financial aid office might also benefit your student," Cygan says. "With my youngest daughter's aid package, we were able to negotiate an additional 'discount' on tuition. I learned that financial aid employees often have a certain amount of flexibility in allocating aid, so it's worth getting to know them.

"Also, be aware that your child may qualify for additional types of aid later in college that he didn't initially. As the semesters pass, remind him to stay abreast of any updates. For instance, once he declares a major, his department may offer scholarships to its students."

If your family does take out college loans, make sure some of the loan balance will be repaid by your child, she says. "Knowing that his education isn't a freebie will make it more meaningful to him," she says, "and may also sharpen his motivation to graduate in four years."

3. Start college with a monthly budget

In college your child will be responsible for managing her monthly budget, which might include paying for food, transportation, entertainment, laundry, clothing, and more. If she's like many students, this will be her first experience at managing a budget, and she'll quickly find that expensive outfits, frequent pizza deliveries, and daily $4 lattes aren't sustainable.

"You can help ease the transition by helping your student identify priorities and figure out how much she's likely to spend on necessities each month, so that she'll have a general idea of how much she can put toward more fun activities," Cygan says.

"If money is tighter than she'd like, inform her that she's just taken one of her first major steps toward entering the real world. The good news is, if she gets used to budgeting, prioritizing, and stretching her dollars now, she'll have a leg up on many of her peers once she becomes completely independent — and after graduation, she probably won't have to use her first paychecks to attack a credit card balance."

4. Resisting financial peer pressure

Your child is likely to meet students who don't put much thought into their spending habits, which may be something they've experienced even before they start college. One acquaintance may have "Daddy's credit card," for example, while someone else may be using his own credit card with little thought toward the consequences.

And if all of your student's friends are eating out at restaurants, indulging in shopping sprees, and going to see a new movie each weekend, he might be tempted to do the same.

"Keep in mind that 'The Joneses' go to college, and keeping up with them can quickly drive your child into a financial hole," Cygan says. "Yes, it might be embarrassing for your student to tell his friends that a certain activity isn't in his budget, but it's very important for him to get comfortable in that role.

"It's a life skill! You can help by providing key words like, 'I'm sorry, but I really can't afford this.' Or, 'Thanks for thinking of me, but right now I don't have the cash. Let's plan to do something else.'

5. Beware of Plastic

During your child's first year on campus, she'll probably have the opportunity to sign up for a credit card. Encourage her to think long and hard (and talk to you) before doing so.

In some cases credit cards can be a lifesaver because they allow you to pay for basic necessities during emergencies, but much more often, they lead you down a slippery slope and into a black hole. If your teen doesn't have the cash for something and doesn't absolutely, positively need it, tell her to say no and start saving, which is something they can do before they start college.

"Parents, be aware that many banks provide debit and credit cards with a pre-set limit," Cygan says. "My husband and I took advantage of this by working with a national bank to open a debit card and a credit card (both with a pre-set limit) for each of our college-age daughters.

"Their monthly allowance went into the debit card account each month, and we put an extra $500 on the front-end for cushion," she says. "We agreed with them that extra charges would go onto the credit card, but only with our prior approval. We didn't want any surprises when we received the bill each month. The items we approved for the credit card were expenses like car repairs, plane fares, or extra clothing such as winter snow boots."

You can set up a different system with your student before they start college, but just be sure that both of you understand what the credit and debit card rules are before move-in day, Cygan says.

6. Start a savings program before they start college

Whether you'll be providing your student with an allowance or he'll have a part-time job (or a combination of both), Cygan recommends saving some of that money if your student's budget allows. Help them set up the account before they start college.

Immediately after he receives his allowance or paycheck each month (let's say that adds up to $200), encourage him to put a predetermined percentage (say, 15%) into his savings account. In this example, that's $30 a month, which will add up.

"Yes, I'll admit that saving money out of an already-small budget will feel unreasonable or even impossible for most teens," she says. "It may help to remind your student that he is starting a lifelong savings habit that will serve him well over his entire life.

"Once he finishes college and has a full-time job, he can increase his savings percentage to 20 percent, and leave it there throughout his working life," she says. "This is the concept of 'pay yourself first,' and it will set your child on the path toward financial security."

7. Open a Roth IRA before They Start College

If your student is working during college (or perhaps only during the summer before they start college), Cygan strongly recommends that she put some of her savings into a Roth IRA and to open the account before they start college.

She can invest up to $5,500 per year, but she must have earned income of at least $5,500 to contribute the full amount. If her earnings are only $2,000 from a summer job, for example, she can contribute any amount up to $2,000.

And if before they start college seems too early to begin contributing to a fund that's typically used in retirement, think again. If your child contributes $5,000 to a Roth IRA for 10 years, her contributions will total $50,000. However, if the account grows 8% per year, its total value at the end of that 10-year period will be more than $75,000.

The point is, the earlier your student starts contributing, the more her money will work for her, especially if they begin saving before they start college. This is the power of compounding.

Although it was originally intended as a retirement account, the Roth IRA is very beneficial for other purposes, too. Because account holders are able to access the contributions at any time without penalties and without taxes, the Roth IRA is a great way to save for a down payment for a home or to help pay for graduate school. Just try to help them get it set up before they start college.

"If possible, you or your child's grandparents might agree to match her Roth IRA contributions up to a certain amount, similar to how an employer matches a 401(k) contribution for their employees," Cygan says.

"It does not matter where the money invested in the Roth comes from, as long as it does not exceed the lesser of the amount of earned income that is reported on a tax return or $5,500," she says.

Note that if your student's summer job does not result in a W-2 from her employer, then the amount contributed may need to be reduced slightly to cover self-employment taxes. See your tax adviser or the IRS for details.

"Parents, think of this money management discussion as your parental contribution to freshman orientation," Cygan says. "The budgeting, spending, and saving habits your student forms in the coming months and years are likely to stick around long after graduation. By providing sound guidance, you're making an investment in your child's long-term security and happiness."

What financial discussions do you plan on having with your student before they start college? Leave your comment in the section below.

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