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The Financial Conversation You Need to Have with Your Kids Before They Leave for College

If you're worried about your new college student's ability to manage money on his or her own, you're not alone. Here, I spotlight seven specific things you and your student need to consider before freshman move-in day.

Your years of encouragement and supervision have paid off, and your teenager will be heading off to college this fall. But if you're like most parents, your pride and relief are mingled with new worries. You want your child to thrive (or at least survive) academically. You hope you've made a lasting impression when it comes to teaching time management skills and making "responsible life choices." But is it possible that you overlooked one of the most important lessons of all: how to manage money?

Now that your student will be living on his or her own for the first time, he or she will be facing a lot of potential financial pitfalls—and you should make time to talk about them.

Often, college students don't realize that their current financial habits and decisions will impact their lives for years to come—and looking back, many wish they'd done things differently while they were in school.

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. I promise—underneath the potential sighs and eyerolls— your child will absorb more than you think.

Here, I share several things to consider with your student before classes start:

Be sure your child knows what this is costing. (And make her commit to finishing 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. Take your time figuring out what you want to do. And don't forget to have fun!" I agree that college is a great time to explore new areas of interest… but I also believe 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 (or more!) completing graduation requirements. 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.

Involve your student in the financial aid process. Make sure your student is knowledgeable about any financial aid he may be receiving, whether it's in the form of merit-based scholarships, need-based aid, grants, work-study, or something else. (This is especially important if you, on whose income and assets the aid may be based, filled out the forms!) It's important for your student to know what he's entitled to, what his aid does and doesn't cover, and whether terms and conditions will change from year to year.

Having a direct conversation with the college's financial aid office might also benefit your student. 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.

And one more piece of advice on the topic of paying for school: If your family decides to take out college loans, make sure some of the loan balance will be repaid by your child. Knowing that his education isn't a freebie will make it more meaningful to him—and may also sharpen his motivation to graduate in four years!

Help your child work out 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. 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.

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.

Parents, be aware that many banks provide debit and credit cards with a pre-set limit. 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. 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.

Encourage your student to start a savings program. Whether you'll be providing your student with an allowance or he'll have a part-time job (or a combination of both), I recommend saving some of that money if your student's budget allows. 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 percent) 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. 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 fulltime job, he can increase his savings percentage to 20 percent, and leave it there throughout his working life. This is the concept of "pay yourself first," and it will set your child on the path toward financial security.

Specifically, talk to her about opening a Roth IRA. If your student is working during college (or perhaps only during the summer), Cygan strongly recommends that she put some of her savings into a Roth IRA. 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 it seems too early to begin contributing to a fund that's typically used in retirement, think again! If your child contributes $5,000 to her Roth IRA for 10 years, her contributions will total $50,000. However, if the account grows 8 percent per year, its total value at the end of that 10-year period will be over $75,000. The point is, the earlier your student starts contributing, the more her money will work for her. This is the power of compounding.

See your tax adviser or www.irs.gov for details.

Parents, think of this money management discussion as your parental contribution to freshman orientation. 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 longterm security and happiness.

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