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Author: Susan Johston

5 Money Topics for Parents to Discuss With College Freshmen

As college freshmen prepare for the fall semester across the country, parents and students have a lot to think about: what to bring for the dorm room, where to buy textbooks and how to register for classes. One important area that's all too easy to overlook: money.

"A lot high schools don't do a lot of education on saving money and staying out of debt," says Brian Hayes, father of three and owner and CEO of Hayes Advisory Group, a wealth management firm in central Indiana. "That really falls on the parents' shoulders to educate kids properly."

Here are five money topics that parents should discuss with incoming college freshmen before they set foot on campus.

1. Funding college. Some families can afford to simply write a tuition check each semester, while other parents or students take on significant amounts of student loan debt. However, some parents who can afford to fund college still choose to have their children pay a portion of their degree themselves. Donna Skeels Cygan, owner of Sage Future Financial in Albuquerque, New Mexico and author of "The Joy of Financial Security," says she took out some loans for her two children as a learning experience for them. "I want them to have the experience of paying that back and realizing they did pay a portion of their college expenses," she explains. This could also help incentivize students to apply for scholarships or maintain the GPA they need to avoid losing merit scholarships.

Whatever your situation, set clear expectations around who is repaying any loans, and make sure your student understands the terms of those loans. "Share with them how much you're spending on them so they understand what it costs," Hayes says. If possible, making interest-only payments on loans with unsubsidized interest rates could help a student get into the habit of paying loans and minimize the amount of interest they'll owe. Cygan also suggests setting the expectation for your child to graduate in four years. "Spending five years at college when you could have finished in four is a huge waste of money," she says, "so don't buy the line that changing majors several times is consequence-free."

2. Setting a budget. Whether your student is expected to work for spending money or you're providing cash for living expenses, he or she needs to realize that money is finite. Mary Hunt, mother of two and author of "Debt-Proof Living," says it's important for students to track their daily spending so they can see where their money is going. Are they running out of money because of late-night pizza and beer runs? Or do they need to increase their budgeting expectations because textbooks or other essential expenses cost more than expected? Cygan says she and her daughters started with an expected monthly budget of $200 and adjusted based on actual expenses. "I don't think parents need to feel the pressure to know exactly what that number needs to be," she says. "We wanted them to know that they had to really stretch those dollars."

3. Understanding credit cards. The CARD Act of 2009 means credit card issuers can't market as aggressively to college students as they have in the past, and credit card applicants under age 21 are supposed to demonstrate sufficient income to cover minimum payments. Even so, talk to young people about credit cards before college to prepare them for responsible credit card use. Some parents list college students as authorized users on their credit cards so they'll have access to money in an emergency (not involving beer or pizza) and begin building a credit history. Others opt for a credit card with some limitations or wait until children can qualify for a card on their own at age 21. Either way, Hunt says it's a good idea to start building credit during college, but students should avoid carrying a balance. "If you ever allow a balance to roll from one month to the next, own up to it and let someone else hold [the card for you]," she says, so you can't continue charging on it.

If your student's school offers a prepaid card for purchases around campus, your student should be eligible for that card before he or she turns 21, since it's not a credit card. However, prepaid cards do not help build credit history and they may come with extra fees, so read the fine print and help your student weigh the convenience factor against the card's cost.

4. Resisting peer pressure. Hopefully by now your teen understands that going on weekly ski trips or driving flashy cars isn't in everyone's budget. But with the extra independence of college, it's a good idea to revisit these conversations and stress the importance of resisting peer pressure to spend beyond their means. Some classmates may have large trust funds, while others live on ramen noodles. Living near the latter end of the spectrum will help students avoid debt and set up good budgeting habits. Hunt discourages students from bringing a car to campus, because it's not only a money suck but also a mooch magnet. "All your friends who don't have a car will turn to you, and you turn into everybody's taxi cab," she says. "Leave it at home or sell it, and call yourself a starving college student."

5. Saving for the future. Retirement may seem like a distant reality, but those who start saving during college will have a leg up on their peers thanks to compound interest. Young people with earned income can contribute up to $5,500 per year into an individual retirement account. Hayes says when students are working hard to pay for school, some parents will make retirement contributions for them to help jump-start their retirement savings. If that's not doable, then Cygan suggests a parental match similar to an employer matching 401(k) contributions. Helping college freshmen make sound financial decisions now will help them lay the foundation for better decisions and habits after graduation, too.

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