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Seven Finance Lessons for Your New College Student

If you're like most parents of college students, 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?

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

1. Knows what this is costing. (And 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.

2. Be involved 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 her to stay abreast of any updates. For instance, once she declares a major, her 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 education isn't a freebie will make it more meaningful—and may also sharpen that motivation to graduate in four years!

3. Work from a monthly budget. In college your child will be responsible for managing her own 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.

4. Resist financial peer pressure. Your child is likely to meet students who don't put much

thought into their spending habits. One acquaintance may have “Daddy’s credit card,” for example, while someone else may be using his/her 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, she 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. Yes, it might be embarrassing for your student to tell her friends that a certain activity isn’t in her budget, but it’s very important for her 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.”

Making a deliberate commitment to living within her means probably won’t sound like fun to your student, but it will save her (and you!) a lot of stress. I promise, being financially responsible feels good.

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 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.

You may choose to set up a different system with your student, and that’s fine. Just be sure that both of you understand what the credit and debit card rules are before handing over the plastic!

6. Start a savings program. Whether you’ll be providing your student with an allowance or she’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 she receives her allowance or paycheck each month (let’s say that adds up to $200), encourage her to put a predetermined percentage (say, 15 percent) into her savings account. In this example, that’s $30 a month, which will add up quickly.

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 full-time 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.

7. Open a Roth IRA. If your student is working during college (or perhaps only during the summer), I strongly recommend 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.

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.

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