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

"Parents, think of the money management discussion as your parental contribution to freshman orientation," says Donna Skeels Cygan. "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."

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

Here are seven things to consider discussing with your student:

1. Be sure your teen knows what college costs. (And make her commit to finishing in four years.) College is a great time to explore new areas of interest, but it's also a time to focus on learning and earning a degree.

"It's all too easy for students to [continually] sign up for classes that look fun and interesting, only to find that they need to spend an extra year completing graduation requirements," Cygan says. "Even during your child's first semester, it's important for her to take class selection seriously. Instruct her to plan ahead and make it 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. Involve your student in the financial aid process. Make sure your student knows what financial aid she is receiving. Your student needs to know what she's entitled to, what her aid does and doesn't cover, and whether terms and conditions change from year to year.

"Having a direct conversation with the college's financial aid office might benefit your student," Cygan says. "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. For instance, once she declares a major, her department may offer scholarships to its students.

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

3. Help your teen 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 lattes aren't sustainable.

4. Talk about how to resist financial peer pressure. Your child is likely to meet students who don't put much thought into their spending habits. Some friends may have "Daddy's 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.

"'Keeping up with the Joneses' can quickly drive your child into a financial hole," says Cygan. "It might be embarrassing for your student to tell her friends that a certain activity isn't in his budget, but it's very important 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, but it will save your student a lot of stress."

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.

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

"Just be sure that both of you understand what the credit and debit card rules are before move-in day!"

6. Encourage your student to start a savings program. Whether your student receives an allowance or will have a part-time job, Cygan recommends she put a predetermined percentage (e.g. 15 percent) into her savings account. It adds up!

"I'll admit that saving money out of an already-small budget will feel impossible for most teens," Cygan says. "Remind your student that she is starting a lifelong savings habit that will serve her well over her entire life. Once she finishes college and has a full-time job, she can increase her savings to 20 percent, and leave it there throughout her working life. This is the concept of 'pay yourself first,' and it will set your child on the path toward financial security."

7. Talk to your teen about opening a Roth IRA. If your student is working, 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.)

If it seems too early to begin contributing to a fund that's typically used in retirement, think again. 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 is a great way to save for a down payment for a home or to help pay for graduate school. Speak to your tax adviser or visit www.irs.gov for more information.

Donna Skeels Cygan is the author of The Joy of Financial Security: The art and science of becoming happier, managing your money wisely, and creating a secure financial future (Sage Future Press, 2013, ISBN: 978-0-989-77844-2, $24.95, www.joyoffinancialsecurity.com).

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