

Freshman Finances

Mary Rowland Personal Finance Column – August 2007

They may be on the beach this weekend, but in just a couple of weeks this year's college freshmen will be hitting the books—checkbooks as well as textbooks.

There will be two kinds of students, depending on which parental “prep school,” they attended: those who continue to run to mom and dad to pick up the tab and those who will learn how to manage money on their own.

Using the college years as an opportunity to teach your children about money is particularly important for two-career couples who have provided a high standard of living for their children. If they are to learn to survive on their own, college needs to be an experience of learning that the checkbook runs out.

Financial planners say their clients are troubled when their children keep calling home from college for cash. Why? The student has little sense that money is finite. He or she simply uses up what's on hand and calls home for more.

Employers say they see some of these same young people fresh out of college looking for jobs. They don't hire them, though. “People who have had too much are not thrilled with a salary in the 30's,” one said. Another added: “I like to hire people who worked during college,” and added that he can spot those graduates who have no experience managing their time or money. They are not good job candidates.

Deena Katz, who teaches financial planning at Texas Tech in Lubbock, Texas, suggests that parents ask their freshmen to do the research on what it will cost for first-year living expenses. When he or she comes up with a budget, sit down with your child and decide what you will contribute and what he must contribute. Check to see how much he has in his own savings account. Is it enough for one year's spending money?

Another planner says that college kids should work at least a couple of hours a week because it teaches them about budgeting both time and money. “I don't know how the kids could put any value on money unless they have to put out some personal effort to get some,” he said.

Be realistic about how much spending money your student needs. Being a little lean and hungry in the college years is good for young people. But if you cut it too thin, your child may get into trouble. Some of the things desperate young people have done to get money: loaning money out at exorbitant interest rates, writing other students essays for cash or buying liquor for underage students.

Once you've agreed on your contribution, decide how you will give it to your child. You want to mirror real life. One option is to give it to him as a paycheck, once a month. Some planners suggest that you give your child your contribution for the entire freshman year. He has to budget to make it last. Don't weaken and send more money unless it is a holiday or birthday gift.

Be sure to talk with your child about setting up a checking account at a local bank. Many banks in college towns offer free checking to students. Yours should set up a checking account with a checkbook and ATM card. Talk to her about ATM fees, if any. If there are no fees for withdrawing cash, she should take as little as possible and make it last a week.

Consider adding your child's name to one of your own credit cards. It sounds scary but you provide the rules

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on what he may charge on it. You will also be able to monitor purchases. I have a friend who is 45 and the mother of three kids and she says she is still paying off the Chinese food she charged on her credit card when she was in college. Your child needs an emergency cash outlet. But you must define the emergency.

If your child tells you it's cheaper to live in an apartment than a dorm, have her do a cash flow statement to prove that it's true. Ditto for other "great bargains" such as cooking yourself rather than buying a meal plan. They may be listening to a good salesman, like a friend who doesn't want to eat or live alone.

If your student plans to study abroad, she should make up a budget for the semester and learn how to change currency and handle money issues in another country. This can be a fabulous learning experience.

Finally, if this is all bad news to your student, talk about work for next summer. If he works hard in the summer, he can live better in the winter. If he lies around the pool all summer, winter will be harder.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.