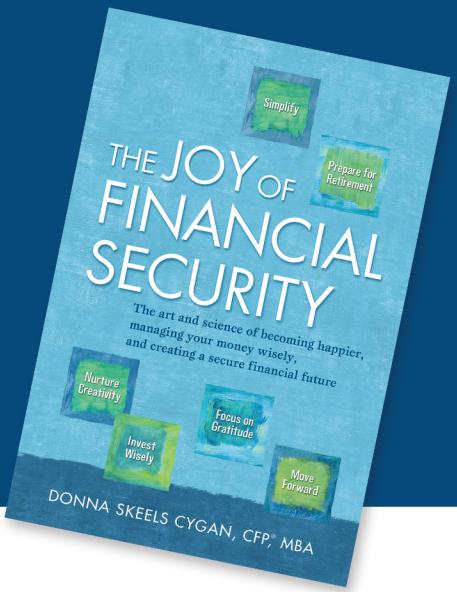


THE JOY OF FINANCIAL SECURITY

REPORT



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

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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.

By Donna Skeels Cygan

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 eye-rolls—your child will absorb more than you think.

In addition to owning a successful financial advisory firm, I have one daughter in college as well as one recent graduate. The advice I gave to my own children mirrored the guidance I give my clients, much of which is detailed in my book *The Joy of Financial Security*. One of the book's central tenets is that lavish, spontaneous spending doesn't make us happy at all (at least not for long). Sane, smart money management—which should ideally start in college—does bring joy and peace (not to mention smaller credit card bills and student loan payments).

Here, I share seven 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.

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. One acquaintance may have "Daddy's credit card," for example, while someone else may be using his 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, he 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 his friends that a certain activity isn't in his budget, but it's very important for him 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 his means probably won't sound like fun to your student, but it will save him (and you!) a lot of stress. I promise, being financially responsible feels good.

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.

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 move-in day!

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 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.

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.

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.

If possible, you or your child's grandparents might agree to match her Roth IRA contributions up to a certain amount, similar to how an employer matches a 401(k) contribution for their employees. It does not matter where the money invested in the Roth comes from, as long as it does not exceed the lesser of the amount of earned income that is reported on a tax return or \$5,500. Note that if your student's summer job does not result in a W-2 from her employer, then the amount contributed may need to be reduced slightly to cover self-employment taxes. 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 long-term security and happiness.

Happiness 101: Six Tips for Creating a Fulfilling College Experience (Finance Aside!)

I have combined my professional expertise as a financial advisor with groundbreaking psychological and neurological research to learn more about the roots of true happiness.

While money can impact our happiness, it's far from the only factor that leads to fulfillment. In addition to managing your money wisely in college, you're in control of many other factors that can impact how content you are—or not—in college, including your attitude, choices, and behavior. Actually, psychology research has shown that we control roughly 40 percent of our happiness!

Here, I share six non-financial tips to help college students create a happy four years:

Be grateful. You can focus on what you don't have (which leads to dissatisfaction and, often, an unhealthy Keeping-up-with-the-Joneses attitude) or on what you do have. Choosing gratitude is a proven way to boost your mood and well-being and to ward off self-centeredness and entitlement. So as you enter college, recognize that your parents, grandparents, and teachers probably helped make it possible for you to be where you are today. Thank them explicitly for their support. Not only will you be giving these loved ones a valuable gift, you'll be laying the groundwork for fulfilling relationships in the years to come. (You may be even more grateful for their continued help as you move through college!)

Communicate often with your parents, grandparents, and siblings.

Believe it or not, they want to hear from you and be a part of your life. A few phone calls or emails each week will be appreciated more than you know! This is the perfect time to begin nurturing, creating, and negotiating an adult relationship with your loved ones by showing them love and respect.

Volunteer. Whether you choose to tutor local children, get involved with a philanthropic organization at your college, or volunteer in the field you'd eventually like to enter, giving back to others is a powerful learning experience that you won't be able to get in a classroom. In addition to learning new skills, developing relationships, and gaining real-world experience, neuroscience has also shown that charitable acts cause reward portions of the brain to light up. In other words, volunteering can make you happier!

Make new friends. Yes, it's true that you (and perhaps your parents) are paying tuition so that you can get an education. However, that doesn't mean that you should devote all of your time to hitting the books. Developing mutually fulfilling friendships with your peers is an essential part of being happy. And some of the friendships you develop in college may last a lifetime!

Study! Yes, really. It's true that the act of studying itself might not make you feel very happy. But the grades you receive can be a huge source of pride and fulfillment, and excelling in your classes will boost your self-esteem. (Plus, they will be very important if you want to go to graduate school or apply for additional scholarships!)

Be aware of risk. An important factor in achieving happiness is steering clear of trouble, stress, and anxiety. That's why I urge you to put (extra!) careful thought into the decisions you make during your college years. The brain's prefrontal cortex (which is where logical thinking and risk assessment happens) does not fully mature until about age 25. Yet the amygdala (where strong emotions such as impulsivity, cravings, fear, and greed originate) is in full force during adolescence and the college years. Basically, this means that through no fault of your own, you're physiologically more likely to get "carried away" without thinking through the consequences. (Researchers have theorized this is why college students engage in risky behavior, which sometimes leads to horrific results.) In most situations, despite the impulses your amygdala is sending, you know the difference between right and wrong. The point? Pay attention and do your best to choose wisely

About the Author:

Donna Skeels Cygan, CFP®, MBA, is the owner of the financial advisory firm Sage Future Financial, LLC, and 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*. She has been recognized numerous times as one of the top financial advisors in the U.S. She seeks to help her clients take control of their money in a way that maximizes their happiness.

Cygan has contributed to articles and has been quoted in national newspapers and magazines, including the Wall Street Journal, the New York Times, the Chicago Tribune, Forbes, Kiplinger's, and Investment News. She has appeared on TV programs in New York, Seattle, Portland, Phoenix, Minneapolis, and Memphis, as well as on many radio shows across the U.S. She also enjoys speaking on many topics related to money and happiness. To learn more, visit www.joyoffinancialsecurity.com.

About the Book:

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) is available at bookstores nationwide and from major online booksellers.