Parents: Avert college debt by teaching your kids about money

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Guest column

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While the high cost of college loans may certainly be to blame for many college students graduating with crushing debt, some of that debt can be diminished by educating high school graduates and college students about smart money management.

Undisciplined spending and burdensome debt can be avoided with the right information and disciplined fiscal habits.

As kids grow up and enter college, they may be surrounded by peers who have more disposable cash than they do and constantly lured by the availability of credit cards. Yet high schools and colleges are not educating kids about proper budgeting and spending and certainly credit card companies are not.

It is the responsibility of parents to educate their children about money, finances, budgeting, credit and spending.

A young person may have a basic understanding of budgeting from managing an allowance or a part-time job, but once he or she enters college, your child needs to draft and live by a real budget – especially if he or she lives in an apartment and is responsible for rent, utilities and expenses.

The first step is to determine your child's income and whether it comes monthly, biweekly etc., and whether it comes from you as a parent, a part-time job or through financial aid.

Second, determine what expenses you are responsible for and what your child's responsibilities are. For example, make it clear who will pay for school supplies, dining out, fraternity dues, travel and home expenses. Make sure you define what the difference is between needs and wants. Spring break is a want; groceries are a need.

Teach logical thinking about budgeting and planning

Do not constantly bail your child out. Let them know that spending more in one area may mean spending less in another. Saving receipts and tracking expenses in an online tracking system or using online banking are great tools for visually seeing where money is going. Tracking expenses in a simple Quicken tool, for example, can provide an immediate look at where the money goes.

Encourage open communication for your child to approach you with questions before letting things get too far out of control. Remember, money is a tool, and we all need to learn how to use it. Spending money may be emotional at times, but managing money well is always logical. Think Spock, not Captain Kirk.

Encourage your child to open a checking account that requires no minimum balance and allows unlimited free checking, online bill pay, debit card access and overdraft protection. Show your child how to balance accounts.

Encourage your child to open a savings account, too, especially if he or she has a part-time job during the school year or summer.

Your child should save any income that doesn't have to be put towards college and living expenses. It may not be much to begin with, but it's good to start the habit early.

If your child is under age 21, he or she may not be able to independently obtain a credit card. In this case, a parent may be required to co-sign the application, which ultimately puts the parent on the hook for any unpaid balances and could impact the parent's credit rating.

A credit card can provide security in a financial emergency and, if used properly, can help your child build a good credit history. Unfortunately, the opposite is too often true. The temptation for a young person to use a credit card for non-emergency purposes can lead to debt accumulation that can impact his or her ability to borrow in the future. Advise your child to get a credit card with a low credit limit to avoid accumulating a high balance.

Avoiding the pitfalls of misusing credit cards

Most importantly, explain to your child that a credit card isn't income. What gets charged is owed and must be repaid. Each month. Also, the interest rates charged on credit card balances can be staggering. Review with your child due dates, late charges and the damage to a credit history that can be the result of late payments.

Make sure your child understands that it is his or her responsibility to notify the credit card company of address changes, not the other way around.

Finally, don't expect your child to be perfect. There will be bumps along the road, but educating him or her now may not only prevent major debt problems and poor credit ratings in the future, but start your child along a path to financial stability and peace of mind. ■