

Keeping Your College Student on Budget

By Joseph Orsolini, Certified Financial Planner

Many families with kids in college find their household budgets strained and stretched. And no matter what great advice you give your kids about frugality, once they go away to school, they face all kinds of temptations and enticements and inducements – and they tend to have a hard time living according to your temperate financial directives.

You can't always limit your kids' spending merely by sending them only so much cash each month. Credit card companies have become aggressive about targeting students and inducing them to apply for credit card accounts. A recent study by Nellie Mae, a leading national provider of higher education loans, found that 83 percent of college undergraduates carry at least one credit card. The average college student's credit card carries a balance of \$2,300. The interest on that debt, at rates as high as 1.8 percent per month, is a killer.

What can you do to keep your kid from putting your family in financial straits? I recommend two things: first collaborate with him or her to develop a budget, and secondly arrange for your student to get a debit card with a built-in spending limit.

Teaching how to budget: a valuable, lifelong skill

Next time your child is home from college, or before they leave for college, sit down with him or her and develop a budget for the next semester or quarter. Then break it into separate monthly budgets.

On the expense side of the budget, develop a list of spending categories, with line items in each category. Your categories might include, for example, education expenses, room and board, travel, personal expenses, entertainment and recreation, miscellaneous, etc.

In each of those categories list the line items and estimate expenses for the semester or quarter. In the education expense category, for instance, you would include the following line items: tuition, fees, books, supplies, etc. These expenses are non-discretionary and fairly predictable.

The personal expenses category would include clothing, toiletries, etc. These may not be so predictable, and you'll have to fine-tune your estimates as the months go by.

One little piece of advice: try to be reasonably generous with the miscellaneous category. It's a place where the student can hide some fairly innocuous indiscretions. Otherwise, the budgeting process might seem oppressive, and you could be perceived as prying too deeply into the student's private life.

When you have totaled the expenses, of course you must determine whether you can afford them. If the amount is too high, you can adjust the variable and discretionary expenses, such as entertainment and recreation, until your totals are acceptable.

On the income side of the budget, you'll have to decide when and how often to send money – monthly usually works best with a monthly budget.

During the budget development process, it is imperative that you explain how important following the budget is for the well-being of the whole family, not to mention the continuation of the student's college career. Also, assure your student that budgeting is a marketable skill, one that will be useful throughout his or her life.

Tracking and reporting

When your child is back in school, he or she should record all expenditures. It can be a difficult habit to get into at first, but after a while it becomes routine – and then it can be a hard habit to break.

This might involve helping the student set up a journal where he or she can record each expenditure according to the appropriate line item.

At the end of each month and each semester or quarter, review the journal with the student. If the student is having problems sticking to the budgetary limits, take a close look at which categories contain the problems, and take steps to get back in line with the budget. You may have to reallocate the limited dollars to different categories, increase the total money supply if you can, or find a way to reduce expenses.

Debit cards

One good way to keep the reins on a student's spending is the debit card. They are accepted at most businesses just like a credit card. But the amount the debit cardholder can spend is limited by the money that is already in the account, which you can control. Unlike a credit card, where cardholders can keep spending money they don't have, the debit cardholder is limited to what they actually have on deposit.

Obtaining a debit card is as simple as going to a bank and opening a checking account. Once it's open, request a debit card on the account. If you open the account while your kid is still at home, rather than at a bank near the campus, you can arrange to be a cosigner, which gives you access to and control of the money in the account. You can also arrange for both you and your student to receive copies of the monthly statements.

As tedious as it may sound today, on graduation day you'll be glad that you took the trouble to budget. So will your kid.

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