Students away at school may be struggling with funds

University and college kids unused to handling money are missing out on valuable lessons

By JOANNE RICHARD

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Forget the Freshman 15 - what about the Freshman $15,000?

From lattes and late night pizza deliveries to crazy cellphone bills and impulse clothing buys, fiscal fiascos including reckless credit card spending may already be weighing students down.

For many, after seeing their university-living kids for the first time this Thanksgiving weekend, now is the time for parents to broach the subject of debt.

Many students don't have a clue about managing money, says leading financial expert Nathan Dungan. Life has been funded by parents who are really shortchanging their kids fiscally.

"Somehow money issues like bill paying, budgeting and living within your means will magically get resolved without ever working at it."

Get set for serious money mistakes - like overspending - that can become a distraction to the primary goal of succeeding at school and will follow them around for years to come, says Dungan, author of author of soon-to-be-released book and DVD for families, Money Sanity Solutions: Linking Money and Meaning.

Already student debt is estimated to be more than $13 billion in Canada.

Financial expert and co-host of W Network's Burn My Mortgage Kelley Keehn thinks parents need to start early. "Ideally, parents should but don't include teens and young adults in discussions about household finances. Also ideally, parents would encourage their children to assist with paying some type of 'rent' in their late teens, early adulthood when staying at home."

Alan Kaplan, professor at Ted Rogers School of Business Management, says that students who have to finance their own education are much more likely to balance their books. "If they've worked for/earned their money, they are in much better shape.

"Those who screw up may decide to take on a part-time job when they can barely handle their schoolwork as it is. This can cause them no end of trouble over time."

Some students may take time off to build up funds and then come back to school - "but sometimes once you're out of school, it's tough to come back," adds Kaplan.

According to Dungan, with students taking on so much debt to finance their education, it's critical to monitor how much other nonessential debt they are taking on, most specifically credit card debt. "While student loan debt can be deferred, credit card debt is immediate and can be very burdensome, especially if you carry a balance and have a high interest rate."

Dungan adds that sadly, in our consumer culture, we don't teach kids how not to spend money. "Teaching kids how to defer gratification - that is waiting to buy something until you actually have the money - is an essential life skill. Now more than ever, families need to counter-balance the 'gotta-have-it-now' mentality with conversations of thrift, gratitude and saving for a goal."

It's imperative to become financially literate - at least on the basics of budgeting, deferred gratification and timeliness of bill paying - before leaving home, says Dungan, who offers a new tool for young adults called Mind Your Money on his site ShareSaveSpend.com.

While away, take ownership for your finances, stresses Kaplan. "Plan them out. Keep track of them. Take pride in following your budget. If you do that, you'll be in good shape throughout your life."

Three biggest money mistakes made by students:

No plan on managing money while living away from home.

Too little understanding of how credit cards really work, including the high interest loan that can take years to pay back.

Unaware of how a low/bad credit score can impact their ability to get a job.

From Nathan Dungan, sharesavespend.com

Manage your money with these tips from Kellie Kostek, University at Buffalo:

Don't carry around your credit cards to cut down on impulse purchases

Don't shop when you're hungry

Limit eating out to once a week

Rent DVDs vs. going to the movies

Cut back on cable TV

Buy clothes that don't need dry cleaning

Pay bills online or set up automatic payments

Look into transportation alternatives such as ride sharing, public transportation and bicycling.

Ryerson University offers these quick tips to save money:

Brown bag it. Packing your own lunch is cheaper and healthier.

Buy new to you - from used books and secondhand clothes to furniture, you can find what you need at a fraction of the cost.

Shop online to browse, create budgets, compare prices and take advantage of online savings.

Take advantage of student discounts at entertainment venues, on public transportation, etc. Check out special deals through your student union.

Pick up the free weeklies to see what entertainment is going on in the city for free.

Avoid the latte effect and buy a coffeemaker or a kettle to make your own.

There's a high price to higher education so put a plan in place to limit post-grad debt.

"With the cost of education on the rise and student unemployment at an all-time high; debt repayment is often a post graduate reality," says Investors Group financial planning expert Aurele Courcelles.

According to Stats Canada, university tuition fees are up, now averaging $4,917. "On top of this, student living costs for rent, transportation, food etc. can range from $500 to over $30,000 depending on where they go to school," says Courcelles.

Unfortunately, debt is likely one of the only options for some students - especially those who don't have parents contributing, RESPs or a very lucrative summer job.

"The steep cost and hard work of attaining a college or university education should be outweighed by the potential benefits of improved earning power, better job satisfaction and a more rewarding life. But it can be hard to get through those lean years of higher education, when a lot of students will live the most frugal times of their lives," says Courcelles.

The key to success and limiting debt accumulation is to have a sensible plan and to stick to it - it's never too late to set one up. Discipline and delayed gratification are necessary parts of a successful financial plan.

Draw up a budget following Courcelles' three basic steps:

Estimate total expected income for the period, including savings, scholarships, bursaries, job earnings and family contributions.

Estimate expenses especially the so-called "soft" expenses such as entertainment. Some expenses like tuition and fees are fixed; other costs such as transportation and personal expenses, like entertainment and food, will vary but are controllable. "These are discretionary expenses and should be closely monitored."

Keep a record of actual expenses to have an accurate picture of where money is spent and adjust the budget (and spending) accordingly.

Meanwhile, when repaying debt, target the debt that has the highest interest rate. "Used responsibly, credit cards can be helpful in an emergency and for establishing a credit history," says Courcelles.

But high interest rates on unpaid balances are costly so "repaying this debt as soon as possible at the expense of extra payments on lower interest rate debt would likely make sense."

Stay away from credit cards.

Spending is way too easy when there's no direct loss felt, says financial guru Kelley Keehn.

"It's a proven fact that we 'feel' the significance of a purchase when paying with cash and generally will spend much less than if we were to put it on a credit card or use our debit card," says Keehn, author of The Prosperity Factor for Kids (Insomniac Press).

Running up debt negatively impact futures. "Many students think a credit card limit is a target to hit - that it's found money to be spent immediately."

"If students rack up their card, for example, and only pay the minimum payment, it might take decades to pay it off. And if they miss a payment, it affects their credit rating and possibly their chance of getting a car or home in the near future," says Keehn.

Students make a big mistake when they get credit they don't need and when they max out credit cards.

Studies show that a parent has the greatest influence on their kids' financial habits, so parents need to live within their limits and delay gratification so their kids don't end up making the same mistakes later on.

- One third of first year students have at least one credit card

- Many have more than four credit cards

- Eight-four percent of undergraduates will eventually have at least one credit card

- By graduation credit card debt will average $4,100, but almost one fifth of grads will have racked up $7,000 on credit cards alone.

2009 Nellie Mae student loan company survey

Avoid kids flunking out financially - practice and preach financial fitness from an early age:

Buy with cash. Show your child what things actually cost and explain to them how long it took you to earn this. "Otherwise, they won't just think money grows on trees, they'll think it grows in plastic - debit and credit cards."

Create a real as possible "mock credit account" for your teen. Let them make mistakes before it's the real thing.

Teach them to negotiate; take them with you when car shopping, returning a spoiled item at the store, renegotiating an interest rate on your mortgage, etc.

Explain what credit really means. If they miss a credit card minimum payment due date by just a few days, this can affect their score for seven years.

Allowances are a great learning tool if used effectively. There should be set household duties for any child and then the extras, such as mowing the lawn, etc. "They get money for work - like in real life - and penalized financially if it's not done properly and more money for effort/good work." They should share in some spending decisions and responsibilities with their earned money.

- courtesy of The Prosperity Factor for Kids

Give your kids a sane and sustainable financial future

Instill good money habits in kids, including how not to spend money, with the help of finance expert Nathan Dungan new book and DVD Money Sanity Solutions: Linking Money + MeaningMoney Sanity Solution.

Dungan says it's designed to help families offset the insidious hyper-consumer culture and get them thinking, talking and doing money in ways that honour their values.

Structured and intentional conversations about money are needed to help shift families from a spend-centric mode of behaviour to one that balances spending with saving and sharing - "critical elements for achieving long-term financial success," says Dungan, of sharesavespend.com.

"Their spending will be more thoughtful, their saving more intentional and their sharing more meaningful. The choices we make with our money can change the world," says Dungan, also author of Prodigal Sons and Material Girls: How Not to Be Your Child's ATM.