

June 2011 *MoneyMinute* – Financial Skills for Kids Leaving for College

Sending your children off to college is a prodigious step toward their own financial independence. As you prepare for your kids to leave the nest, now is the ideal opportunity to make sure they are well-prepared to handle their new financial responsibilities.

Some key financial skills pivotal to adapting and succeeding in college:

- ◆ **Establish campus bank accounts and teach banking basics:** Help your student open a bank account with a simple fee structure. Many schools have credit unions on campus. Set up separate checking and savings accounts requiring no minimum balance. Make sure your student is aware of fees for overdrafts and using an ATM not owned and operated by their bank. Teach them how to balance a checkbook. Better yet, start this process while your children are still in high school.
- ◆ **Draft a budget and stress the importance of tracking expenses in college:** Persuade your student to plan and stick to a realistic monthly budget by having them list savings, income and expenses. Consider having them use Mint.com, which they can use to connect their bank account and track where money goes. Have them set up email alerts for when bills are due.
- ◆ **Teach the risks and benefits of credit card use:** Stress the importance of building a good credit record and the long-term consequences of credit trouble. Set the ground rules: Can the credit card be used for everyday expenses or only for emergencies? If it is just for emergencies, make sure your student knows that a ski trip with her boyfriend isn't an emergency. Teach your student to review each credit card bill and pay it in full by the due date.

There are three ways to get a credit card for someone under 21 under the Credit Card Act of 2009:

- ◆ Student is an authorized user of parent's card. Parent is fully responsible for bills. Consider getting a new credit card to use just with your student, or get the credit limit reduced on the card they use.
- ◆ Card with parent co-signing. The parent is responsible to pay the bill if the student doesn't. The card can't be switched to child at age 21. Cancelling the card and getting a new one could actually hurt parents' and student's credit by requiring new credit inquiry and shortening history on the canceled card.
- ◆ "College credit card" if the student has earned income they can report. They can keep card at 21, and it establishes credit history in their name.

Other tips: Tell the credit card company not to send your student blank checks for cash advances. And call 888-5-OPTOUT to block credit rating agencies from selling your student's credit information.

- ◆ **Discuss identity theft:** Personal financial data left on laptop computers, cell phones and other electronic devices can be stolen on campus, in a dorm or by a roommate. Tell your student to keep all paper records in a safe place and use strong passwords to keep all their digital information safe. During sophomore and later years, get a current credit report.

- ◆ **Check insurance coverage:** Anything can happen at college, so it's critical to ensure your student has the appropriate health, car and renters' insurance, if applicable. Check into the college's health insurance plan and compare that to keeping your student on your plan. Keep in mind that part- and full-time campus jobs may also offer health insurance. In addition, if your student brings a car to college, check if it will be cheaper for them to stay on your auto policy versus getting a policy of their own. If they get an apartment, have them buy renter's insurance.
- ◆ **Vital legal documents:** Without their student's permission, parents of students 18 and over are not legally entitled to their children's medical information. These documents let parents help in medical emergencies:
 - ◆ **Health Care Power of Attorney:** This allows you to make medical decisions for your child if needed. In California, it's also called an Advance Directive for Health Care. Your estate planning attorney can provide the document. Also, standard forms are available in most states. Use your home state's forms and/or the state where they will be attending college.
 - ◆ **HIPAA release:** This authorizes medical personnel to tell you about your child's medical condition. Without this document, you may not get any information if your child is in the emergency room, or isn't well enough to contact you.
 - ◆ **FERPA waiver:** Your student's school will likely refuse to give you information from education or health records without a FERPA waiver signed by your student. Use the school's forms if available; see the school's website. The student may need to re-sign each year.

Important: Keep signed forms readily available: Will they be accessible when you or the kids travel? Keep online: in an email inbox, on a keychain flash drive, or use the Docubank.com service.

Also talk with your attorney about getting financial power of attorney from your student. This lets you access your child's financial accounts and make financial transactions for them if the need arises. States also have standard forms available online. Your student needs to sign the form in front of a notary.

Before students leave for school, set the expectation that you'll sit down together for financial checkups on holidays and vacations. Review expenses, credit and bank statements, emergency fund balance, and plan for next term: bills, income, taxes, etc.

Finally, handle mistakes the right way: Most kids will make money mistakes in college. If they bounce a check or overdo it with their credit card, make the criticism constructive but firm, and always come up with a corrective plan you'll work on together. The good habits they establish now will be some of the most valuable knowledge they'll get during their college years.

The source material for this article came from the Financial Planning Association and Summit Financial Strategies, Inc. in Columbus, Ohio.

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Rich Chambers, CFP®

Julie Schatz, CFP®

Jennifer Cray, CFP®

Investor's Capital Management, LLC, Menlo Park

Offering Unbiased Guidance to Financial Success

Member of the National Association of Personal Financial Advisors (NAPFA)

Phone: 866-966-9291

Fax: 650-472-8924

info@feelsonly.com <http://www.feelsonly.com>

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