



Spending 101

**for students going off to live on their own:
A guide for parents and students**

Cathy Johnston
University of Nebraska–Lincoln
Extension Educator
Scotts Bluff County

Carla Mahar
University of Nebraska–Lincoln
Extension Educator
Deuel-Garden Counties

Dear Parents and Students:

Just when you think you are finished writing checks for school, your dorm room and books, or your new apartment and the utilities, reality hits. Bills arrive for many other things that many families with high school graduates going off to live on their own haven't considered. This could include things like furniture, parking permits (and accompanying parking tickets), fees, computers, microwaves, carpets, cell phones, entertainment, dues and much, much more. What many families don't plan or discuss with their children are the additional costs and expenses related to living on their own.

Starting on this new venture of independence can be very exciting and rewarding as well as a time for reflection and change — not only the student but the rest of the family. Open and frank communication can help to establish how your family is going to handle financial issues and expenses over the next few years.

This guide is designed to help identify and analyze additional and unexpected costs. It will help explore situations that may arise unexpectedly along the way. It is an opportunity for parents and students to establish communication that will help keep this new experience positive for all involved.

Cathy Johnston
University of Nebraska–Lincoln
Extension Educator
Scotts Bluff County

Carla Mahar
University of Nebraska–Lincoln
Extension Educator
Deuel-Garden Counties

Doing a Little Homework!

Set aside some time when everyone (parents and students) can sit down together to talk through and negotiate some basic issues. Plan how you are going to handle them as a family. If going to college, students will see that each school varies in its policies. More questions may arise as you work through this process. Write them down and come back to them.

Now is the time to come to agreement. If everyone can come to a consensus now, it will make new issues easier to deal with as they arise.

Talk to other parents and students about what to expect to spend as students get established. (Select families with children attending school or living where your student plans to go or move.)

Brainstorm and list all of the anticipated expenses that the student may incur as he or she gets established. List needs and wants (i.e., parking permits, football tickets, organizational dues, the “right” clothing, decor for the dorm room or apartment, trips home, etc.).

Parent's List

Needs

Wants

Student's List

Needs

Wants

Consensus List

Needs

Wants

Financial Considerations

Now that you have an idea of some of the expenses that might be incurred while your young adult is living on his or her own, it is time to plan financial strategies.

Determine the student's financial savvy:

- a. Can the student stay within an allowance?
- b. Has the student had part-time jobs?
- c. Has the student been responsible with his or her own money?
- d. Has the student paid any of his or her own expenses?
- e. Has the student ever had his or her own checking account?
- f. Is the student organized enough to reconcile the monthly bank statements?

Now that the student's financial savvy has been determined, discuss these financial issues along with others you may have.

1. If the student is going to college, who is going to pay for tuition, room and board, fees and additional expenses? The parents, student or a combination of the two?
2. How much can the family afford to help with college expenses or living expenses?
3. Is the student expected to work? How many hours? How many jobs?
4. If working, how will the student use this income?
5. What is the time frame in which parents will pay college expenses and/or living expenses?
6. What will it cost to maintain the student?
7. If the student chooses to marry or live with someone, will the parents continue to provide support? At what level?
8. What will happen if the student overspends? Who is responsible for the debt?
9. Will the student have a credit card? What are the advantages and disadvantages of credit?
10. Who is responsible for signing legal agreements like housing contracts and loan papers?
11. What banking services will be needed? (Credit card, ATM, debit card, checks, etc.) Will the student continue to bank in his or her hometown, or will he or she open new accounts in a bank located where he or she is planning to live, work or go to school.

Planning Educational Pursuits

1. Think about possible educational interests. How long will it take to graduate from college or trade school with a chosen major?
2. Set goals such as will an internship (paid or unpaid) be needed? Will the student go to summer school?
3. How many hours will be taken each semester? (Talk to other students, parents and school representatives about what might be best for the student.)
4. What are the expectations of both the student and parents for grades?
5. What happens if these expectations are not met?

Planning Housing

1. If going to college, will the student live on or off campus? What are the college/university requirements? What are the advantages and disadvantages of each?
2. Which meal plan will the student use or how much will he or she spend weekly for groceries? What food costs will be allowed for snacks and eating out?
3. Will the student live at home during the summer or stay in the college town?
4. Does the family homeowner's insurance cover student possessions in the dorm room or apartment?
5. Will the student possess a TV, DVR, refrigerator or other appliances? What is the plan for moving these items to campus or to a new apartment? If a college student is coming home for the summer, where will these items be stored?

Planning Transportation

1. Will the student have a car? Will he or she need a car? What are the advantages and disadvantages?
2. Who will be allowed to drive the car?
3. Who is responsible for maintenance of the car and who will pay?
4. Who pays for the gas and insurance? Will the insurance rate change due to moving to a new location?
5. What are the parking accommodations on campus or where the student intends to work? What will these accommodations cost? If going to college, will the student be charged parking fees when traveling off campus?

Planning for Entertainment

1. Who is responsible for entertainment costs?
2. How often will the student go to a movie, date or party?
3. How will the student pay for unexpected opportunities, such as ski trips, spring break, visits to friend's homes?

Other Spending Issues:

Considering the Costs and Benefits of Credit

Credit can be a blessing or a hindrance. Establishing a credit history is important, and being without a credit card can be limiting. Without one, a person can't reserve a hotel room, or make purchases online or over the telephone, for example. However, if credit use gets out of hand, a person could suffer the consequences for years to come.

When young adults start living on their own or go off to college for the first time, they will be bombarded with hundreds of offers for quick credit, promising gifts, free airfare, gas and much more. It may be difficult to resist the lure of immediate accumulation of the things they would like to have. As a student, it can be difficult to know how much credit can be managed. Remember that credit card companies make most of their money from interest (the money a person pays for the convenience of carrying a balance). Many students get into serious financial trouble by mismanaging credit. Some will drop out of school or will spend the first several years of their new careers paying off debt instead of establishing a new home and life.

If a young adult and his or her parents plan for the student to use a credit card, the parents will need to establish a limit and a strategy for use before the student receives a credit card. Steps to managing the student's credit effectively include the following:

Own only one card. Set the minimum balance low (\$500) to help control spending. Never get a second card to pay the balance on the first. Don't charge more than you can afford to pay off each month.

Consider your available funds. Will you be able to pay the entire balance each month?

Consider keeping the card for emergency uses only.

Watch the costs of credit. Know the Annual Percentage Rate (APR) and how it is calculated.

Shop around for the best deal. Read the fine print carefully.

Avoid unnecessary charges. Late payment and over-the-limit fees can add hundreds of dollars.

Avoid maxing out your credit lines. Spending up to the limit suggests that you overspend.

Pay bills promptly and pay more than the minimum.

Protect the card from theft.

Save receipts and review them every month. Check to be sure that all credit charges are accurate.

Keep a record of charges as you go, so the balance will not be a surprise when the bill arrives.

Close accounts you are not using. Open, unused accounts are still considered part of the available credit limit because a person could use it any time. People having more credit than their current incomes and credit history qualify them for could be considered high credit risks. Some credit options could be canceled or result in high interest charges. Having too many credit cards can affect one's ability to get car loans, student loans and mortgages or to rent an apartment.

Credit Tip:

While cash advances can look attractive, keep in mind that interest usually accrues from the moment you accept the cash. If you add in the transaction fees and higher interest charges, cash advances are usually more expensive than anticipated.

Read and understand about credit card insurance offers. Consider carefully if the cost of the insurance equals the benefits.

Establishing a Credit History

Each entry on a credit report (good or bad) will follow a person for at least seven years. So it is extremely important to maintain good credit. The information on the credit rating can be used by potential employers, creditors and landlords to decide if a person qualifies for a job, a car loan or apartment rental, auto insurance, loans, mortgages and any other financial resources.

Paying the minimum balance — what does it really cost?

The monthly minimum payments generally reflect about 2 percent to 3 percent of the account balance. If you only pay this amount, it will take years to pay off that balance. This is assuming nothing else is ever charged. If a person continues to charge and pays only the minimum balance, the balance will never get paid off. Consider the following scenarios.

Buying New Books for School?

If you buy \$500 worth of textbooks using a credit card that charges 19.8 percent interest, and you make only the minimum payments, it will take more than 2½ years to pay off the balance, and will cost an additional \$150 in interest charges. If the card continues to be used, the balance will continue to grow and the time needed to pay it off will increase.

Credit Tip:

Beware of skip-a-month payment offers. Remember, you still pay interest on your outstanding debt, and your interest costs continue to rise.

Or, Need a New Sound System?

Let's say you bought a \$1,000 sound system using a credit card charging 18 percent interest and made the minimum payment to pay off the balance. It would take you almost 6½ years to erase the debt and your \$1,000 stereo would cost you more than \$1,650. Is this what you want to be paying for 2½ years after you graduate from college?

Parents and students need to discuss if and how credit will be used. Be honest with your student before he or she arrives on campus. If you're not going to cover the bills, tell him or her ahead of time. Teach the student the repercussions of poor credit. Many parents go into debt just to cover up their children's debt.

Credit Tip:

Be prepared for credit card theft. Keep a list of your credit card numbers in a secure place. The list should include the name and phone number of each card issuer. Report lost or stolen cards immediately. If you report the loss before a thief uses the card you cannot be held liable for any purchases made with the card. If a thief uses a card before you report it missing, the most you will owe on each card is \$50.

References:

Borden, M.E., Burlison, M.A., & Kerns, E.R. (1995). In Addition to Tuition. New York, NY: Facts on File, Inc.

Office of Public Responsibility American Express Company (1994). Financial Responsibility, A Consumer Education Program, New York, NY, American Express Company.

Now that you have discussed many issues that will affect the family budget and family decisions, take time to work on the student's personal financial situation.

Following this is an Income Statement and Spending Plan Worksheet to help you do some initial financial planning. As a family, take time to compute this as completely as possible. Use your best estimates as to expenses and income. Remember as you work through this, these amounts are not set in stone and will fluctuate a little over time. However, it does give you a great reference and guideline for making financial decisions. Good luck!

Income Statement

		Semester 1		Semester 2	
		Amount	Total	Amount	Total
Scholarships					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
3.	_____	\$ _____	_____	_____	_____
	Total Scholarships		\$ _____		\$ _____
Grants					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Grants		\$ _____		\$ _____
Loans					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Loans		\$ _____		\$ _____
Support from Parents					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Support		\$ _____		\$ _____
Income from Student Employment					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Employment Income		\$ _____		\$ _____
Gifts					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Gifts		\$ _____		\$ _____
Other Income Sources					
1.	_____	\$ _____	_____	_____	_____
2.	_____	\$ _____	_____	_____	_____
	Total Other Income		\$ _____		\$ _____
	Total for Semester \$			Total for Semester \$	

Total Annual Income \$ _____

Spending Plan Worksheet
 Year _____

Budget Categories	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Total
SCHOOL													
Tuition													
Books/Supplies													
Personal Computer													
Organizational Dues/Expenses													
Misc. School Expenses													
HOUSING													
Room/Apartment													
Meal Plan/Groceries													
Appliances/Electronics													
Utilities													
Cable													
E-Mail Account													
Phone/Cell Phone													
Home Furnishings													
Misc. Housing Expense													
TRANSPORTATION													
Car													
Insurance													

Budget Categories	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Total
Car Maintenance													
Gas/Oil													
Parking Fees													
Out-of-town Travel													
ENTERTAINMENT													
Eating Out (snacks, pizza, etc.)													
Movies/Concerts													
Sporting Events													
Organizational Activities													
CD's													
Misc. Entertainment													
PERSONAL ITEMS													
Clothing													
Laundry													
Haircuts/Care													
Personal Products													
Misc. Personal Items													
OTHER													
Gifts													
TOTAL													