

5 Things Your College Freshman Needs to Know About Money

Money

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As you load up the car to take your kids to college, you may be too filled with emotion to remember an essential part of the process: preparing your ascending freshman to manage his or her financial life.

Here are five things your kid needs to know while taking the first steps toward independence:

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1. "You will need a good bank."

It may seem quaint and outdated, but bank accounts are necessary. When your kid opens up a checking account, avoid fees by finding a bank that offers free checking and saving accounts. Shop around to find a bank with convenient ATMs near campus — or an online account that lets you use ATMs without paying a fee — in order to eliminate out-of-network ATM charges, which seem to occur more frequently after midnight. Don't forget to explain how to balance an account, which is a lot easier in the online banking era.

2. "Credit or debit card? It depends."

While debit cards are helpful in the budgeting process, they do not help build a credit history and can be more of a pain in the neck, in the event of identity theft or a data breach. The danger with credit cards is that most don't have a natural spending limit the way that debit cards do (i.e., a bank balance.) It's easy when you have a credit card to let your spending get away from you; meals out and other fun with friends can really add up. Also note that students under 21 may need to either proof of income or a co-signer to get a credit card.

If you plan on co-signing a credit card for your kid, explain that you are

essentially marrying your credit histories, for better or for worse. If your kid pays a bill late, he'll be hurting both his credit history and your own — and could even harm chances of getting a job or renting their first apartment.

Not willing to co-sign? A secured credit card limits your kid's liability, but does establish a credit history.

3. "Don't forget about taxes."

If your kid is working and the employer is not withholding taxes, remind your child to set aside about 15% of earnings to cover the future tax bill. If your college student is waiting tables and receiving cash tips in addition to base pay, all of those tips should be included as taxable income and are subject to federal income taxes.

4. "Get used to good saving habits."

While many students need their earnings to cover books and other college life costs, it's still a good time to instill the habit of saving. Suggest that your child establish an automatic program, putting 10% of earnings directly into a savings account. To explain just how quickly money can grow, make an appointment with a financial advisor, and together check out the SEC's compound interest calculator. It's a great tool for talking about setting (and working toward) future financial goals.

5. "It's not too early to think about retirement."

Speaking of the magic of compounding: Working students can jumpstart retirement savings by opening a Roth IRA account and contributing up to \$5,500 or the amount of taxable income they have, whichever is lower. (There's an upper-income limit, but your kid's part-time gig is unlikely to come near it.) Looking for an incentive? Some parents offer to match their kids' contributions.

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