



Budgeting for Beginners

A STEP-BY-STEP GUIDE

He's off to college (or will be soon). Does he know how important it is to budget his money? Does he know how?

Here are three steps you can take now to ensure that your child has the skills to budget with the best of 'em:

Step 1: Talk to him about the importance of budgeting.

To ensure that your college-ageer clears time in his hectic schedule to devote to building and maintaining a budget, try these arguments on for size:

Budgets are stress-busters. A budget is a tool for determining actual and estimated income and expenses, tracking spending against them, and making ongoing adjustments to ensure that he lives within his means—which allows him to attain his short- and long-term financial goals. The result? He doesn't over-spend (or over-stress!).

Bye, bye, safety net. Parents can't be expected to provide a financial safety net in all situations, so the time for him to start learning to become fiscally responsible has come. After all, college isn't just about having fun and going to class; it's also a major milestone on the road to becoming an independent, self-reliant adult who knows how to manage money.

He spent HOW much on WHAT!?! Frittering money away is a frighteningly easy thing to do. A \$4 cappuccino here...a new CD there...and don't forget the pizza! While none of these expenditures cost much individually, if he adds them all up, the total could make the difference between your teen having enough money to meet his financial obligations at month's end—or not.

It's all too easy to overspend and lose track of where the money goes. A budget can help to avoid this problem by regularly revealing how much he is spending and what he's spending it on. In short, he'll be able to control his money, instead of having his money (or lack of it) control him.

Budgets CAN = fun! Make a list of goals together. Does your child have his heart set on studying abroad this year or going on spring break? Without a budget to keep him on track, there's no guarantee that he'll have the cash on hand to pay for either.

Debt is a four-letter word. Years ago, before credit card use became rampant on college campuses, it was relatively easy for a student to tell whether he was living within his means. If he had money left over at month's end, he was doing a great job of managing money. If he didn't or came up short, he wasn't.

If your child decides to use credit, budgeting can help. For example, encourage him to incorporate every credit card charge he makes into his budget, just as if he were paying cash. Then, at the end of each month, he can put his budgeting savvy to work by paying off credit card balances in full in order to avoid incurring any interest charges or other fees.

Life happens. Cars break down. Cell-phone bills skyrocket. Now, he has unexpected (and rather large) bills to pay. What does he do? (Hint: The correct answer is not to call Mom or Dad and ask for a bailout!) If he already took the time to build a budget that includes a savings category for dealing with the unexpected, he shouldn't have a problem paying for expenses like these—expenses that might otherwise have plummeted him into debt.

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Step 2: Teach the basics. According to the Jump\$tart Coalition's 2006 survey of 5,775 high school students in 37 states, 12th graders' knowledge of personal finance basics is sorely lacking. So how do you arm your college-bound youngster with the knowledge he needs to perform basic financial tasks such as budgeting and balancing a checkbook? Here are some ideas:

Send him shopping. Make out a grocery list, give your teen a certain amount of money to spend, and send him to the grocery store. Here's the catch: Tell him that he has to make the money stretch to buy every single item on your list, but that if any money is left over, it's his to keep. This exercise is great for teaching him the value of comparison shopping, discouraging impulse buying, and encouraging him to keep an eye out for the best deals. Who knows? It might even prompt him to join the coupon-clipping ranks.

Get him involved in family finances. You may not want to disclose every last detail of your financial situation to your kids, but that doesn't mean you shouldn't make a practice of talking openly and honestly about your family's financial decisions. Try holding regular family meetings, for example, where you discuss—and decide together—how discretionary income should be spent. Or, if you feel comfortable doing so, involve your kids in the monthly budgeting process. Lay out your monthly income for them. Then apportion it out, starting with fixed expenses such as car, mortgage, and insurance payments, groceries, utilities, savings, etc. Afterward, divvy up whatever's left among the kids. It won't take long for them to realize that money truly doesn't grow on trees. They may even become motivated to come up with ways to help you save money!

Explain—and make sure your teen understands—the difference between debit and credit cards. It's easy for teens and young adults to think of credit cards as coffers proffering up endless piles of free money, but the reality is that every time he buys something with a credit card, he is taking out a loan—often with a very high interest rate attached to it. The only way to avoid that interest is to pay his credit card balance off in full (and on time) every single month.

Do a checking account check-in. By now, your teen should already have a checking account. If so, check in with him to find out how (or if) he balances his checkbook. Don't just assume that everything is okay. Find out for yourself by sitting down with him once a month over the course of, say, three to four months and balancing the books together. When doing so, make sure that he understands overdraft charges, ATM fees and fees for bounced checks, how to report a lost or stolen checkbook or debit card, how to reconcile his bank statements with his check register, and how to keep his check register accurate and up to date.

Step 3: Build a budget. A number of organizations publish free budget worksheets specifically for college students that can be downloaded and used free of charge. Here's a sampling:

American Bankers Association. The American Bankers Association Education Foundation website features a monthly budget worksheet that includes youth-friendly language and quick tips on how to accurately estimate average monthly costs. <http://www.aba.com/NR/rdonlyres/492295ED-3DD8-4D46-905D-CFC3C3C7DF98/43856/BudgetEnglish2.pdf>

About.com. The About.com website offers a detailed budget worksheet specifically for college students in the "financial planning" section of its website. The worksheet includes income and expense breakdowns by month, semester and year. It also includes columns for tracking actual against estimated amounts for each timeframe. http://financialplan.about.com/library/n_collbudget.htm

Public Broadcasting Service. The handiest aspect of the Public Broadcasting Service's free College Budget Worksheet is the fact that it's both a budget calculator and an educational tool rolled into one. Under almost every income and expense category listed on the worksheet, for example, educational information is provided, as are tips for making accurate estimates. http://www.pbs.org/tenstepstocollege/college_budget.pdf



Banking Boot Camp

This program was developed to teach basic banking skills and distribute relevant financial information to teens, young adults and their parents. To obtain other Banking Boot Camp brochures, check with your banker or visit our bank's website and click on the Banking Boot Camp icon.