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Money tips for parents of first year students

If your child is one of the thousands of first year students enrolled at institutions of higher learning for 2018, you may have found yourself on a parent WhatsApp group recently discussing the tricky question of "how much money do we give them?".

Niel Fourie, public policy actuary at the Actuarial Society of South Africa, says funding young adults who are not yet earning an income is tricky.

"Students tend to demand the freedom and privileges that come with being adult, but at the same time they are not yet in a position to earn their own keep. This means that you are probably still funding them without having direct control over how they spend."

Fourie says the good news is that as long as you control the purse strings, you can still teach them how to spend their money responsibly and how to get into the habit of budgeting and saving.

If your young adult is not yet in the habit of always saving a percentage of money that comes in, whether it be birthday money, pocket money or earnings from weekend jobs, you are unlikely to turn him or her into a committed saver overnight. But, says Fourie, the following steps will help you get them there.

And if you have been struggling with controlling your own personal finances, you could use this opportunity to learn with your young adult, he adds.

1. How much?

Circumstances differ and so do individual requirements, which means there is no ballpark amount that will work for all students.

Fourie says instead of agonizing over getting the allowance right from the first month, rather provide enough money to cover estimated expenses. "Don't start too high and make sure that it is understood that the amount is a starting point. And then tie a non-negotiable condition to the regular payment of the monthly allowance: the submission of a spreadsheet that details all expenses."

He suggests a column for essential expenses such as food and transport and a column for non-essential expenses such as eating out, movies, clubbing and alcohol. Not only will this help you determine an appropriate monthly allowance, but it will also be an eye opener for your child on how quickly money is wasted.

In order to ensure that this "chore" turns into a good habit, the next month's allowance should only happen once the spreadsheet has been submitted.

2. Learn to live within your means

Fourie says teaching a young adult to live within their means will require some tough love.

"They will run out of money and since most students have to pay for their food and transport you will have to come to their rescue when they get it wrong."

He points out that since generous top-ups simply reward undisciplined spending, allowance top-ups should be made only on request and on presentation of an expenses overview.

Once a fair allowance has been established after a couple of months, it is time for the next lesson, says Fourie. "You need to teach your child to do more than just record expenses. It is time to learn how to budget."

3. Drawing up a budget

Money needs to be told where to go, says Fourie. And a budget does exactly that.

While keeping a record of monthly expenses will have taught your child the difference between needs and wants, a budget is different in that it is drawn up at the beginning of the month and allocates money to essential expenses for a student such as food, transport, laundry and data costs. Anything left over from the monthly allowance can be used for entertainment.

Fourie points out that most runaway debt problems are the result of people's inability to budget.

"Unless you tell your money where to go at the beginning of the month, you will lose control over your expenses, resulting in overdrafts and credit card debt."

He adds that one of the most important lessons you can teach your child is to never spend money that they do not have. The most effective way of ensuring this is by sticking to a budget.

"This means that in addition to the expenses overview at the end of every month, your child should also now also present you with a budget for the month ahead."

4. Avoid short-term debt at all costs

It is important to understand the difference between short-term debt and long-term debt.

Fourie explains that short-term debt includes buying on credit and overdrafts. "Short-term debt is always expensive as it comes with a high interest rate and should be avoided."

Long-term debt like mortgage bonds on the other hand is usually backed by an appreciating asset. Provided you can afford the repayments, this debt is considered "good debt".

He says students should never be allowed to buy on credit. "You will teach them nothing by allowing this and they will end up drowning in debt before they have even started working."

Fourie says the only exception is a student loan, because it allows you to invest in your future. "If negotiated properly at a reasonable rate with a reputable institution, a student loan is not necessarily a bad thing."

"Without an understanding of what you are actually spending versus what you can afford, you will likely keep falling into debt," he explains. "Therefore, make sure your young adult does not fall into the debt trap by teaching them proper budgeting skills."

He adds that a good budget will eventually result in some money being left over at the end of each month. Once this happens, the time is right to encourage your child to save.

5. Learn to save and invest

Fourie says like with all good habits, saving requires practice and self-discipline.

The first step, he adds, is to recognise that every little bit counts.

Encourage your child to save every month, even if it is just R100. Help them set goals that will get them into the habit. For example, if your child is keen to go to a music festival later in the year with a group of friends, make it clear that the event will have to be self-funded.

Fourie says you could incentivise your child to save by offering to match the monthly saving, provided it is paid into a separate savings account and your portion is used only to fund the savings goal.

"Once the savings habit has been established, you can set bigger goals and even introduce your child to investing."

Fourie points out that teaching young adults to take charge of their finances successfully will require patience and also parents leading by good example.

"This is not something that can be achieved in one month. Learning to work with money, avoiding debt and eventually saving will help your child survive financially once they have to stand on their own two feet."

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