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4 Financial Conversations You Must Have With Your Teen Before College

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Once your child hits the teenager years, they are in training to become an adult. Adulthood hits fast and hard. When they turn 18, they can sign a lease, be legally responsible for signing a contract, open a bank account, and get a credit card. For even the most responsible 18-year-old...well, this is a lot of responsibility. Specifically, these are responsibilities and decisions that come with real life financial consequences that can have long-term impacts.

At 18 years old, kids are thrust out into a world where every step they take from graduation to retirement will be directly impacted by their financial knowledge and money management skills.

Career decisions, buying your first house, getting married, having children—finances all play a massive role in each of these life events. Will your teen be ready to make these kinds of decisions?

Beyond the financial basics of saving and budgeting, there are a few important concepts your teen needs to understand before they become an adult.

College Loans

There are many factors that go into the college decision, and costs versus benefits needs to be one of them. If your teen is going to have to take out loans, *it is the parent's responsibility to explain to them the long-term impact and financial burden*. College debt has become an epidemic and teens need to know what they are signing up for, and how much they must pay back. Use an online calculator to show them what their monthly payments will be after graduation, versus what their net income will be. Give them the tools to make an informed decision. If your teen is on the younger side, this may be the time to come up with a plan for them to start saving some for college, so their loan amount is less.

Whether you are planning to fully fund their school of choice, or are going to need financial aid – discuss the costs with your teen so they understand that college is a massive investment in their future.

Debt:

Speaking of loans…your teen must understand the dangers of debt before they leave the home. If they have income or just turned 21, your child will become a credit card company's newest and favorite target. The offers will roll in through email, in flight, at the store and snail mail…and they will sound *so good.* Explain to them that using a credit card is a loan, and if they are using credit cards it means they are in debt. They not only have to pay back this debt, but they have to pay the interest fees on top of that - which can be high, especially for young adults. Being in debt is not the way you want your teen to begin their adult life – it's hard to get out of and the consequences last years. Using an online calculator can show them exactly what they will have to pay back when they borrow on credit cards.

Credit Scores:

Much like the quote "You're only as good as your word"…well to lenders, you're only as good as your credit score. This is a pretty foreign concept to teens, but they need to be aware of it's importance so they don't accidentally hurt it. Explain to them that their credit score tells lenders how trustworthy they are based on their financial history. If affects not only their ability to get a loan for a home or car, but also could affect their employment or ability to rent. There are three major factors when building credit: your payment history, credit utilization rate and length of credit history.

Teenagers are limited to how they can build their credit, but one option is to become an authorized user on someone else's credit card.

Protection:

Things happen. At this point in your teen's life, they've experienced something unexpected and negative. This could be serious like a medical emergency, or an annoying flat bike tire. It is so important for them to know there are ways to protect themselves as adults. Without proper protection, something like a health problem or a car accident can be catastrophic. Below are the major forms of insurance they should be aware of:

- Emergency fund: Not classic insurance, but an emergency fund is a stash of money saved *just in case* something goes wrong.
- Auto and home insurance: This will protect them if there is an accident, damage to their home or car, or if someone is hurt and needs treatment.
- Health insurance: Usually provided through employers, this is critical for everyone to have. Not only does it provide some protection and coverage for major health issues, but even a quick trip to the hospital can lead to a shocking bill without insurance.
- Life insurance: This isn't a pleasant conversation, but it's so important. Talk to them about the importance of parents buying life insurance, because it will provide protection for their kids if a parent dies early. If you have it, tell them why you bought it and the peace of mind it provides you.

None of these conversations are necessarily enjoyable, but they are necessary. It's our job as parents to prepare our teens now so they don't make costly (and avoidable) mistakes as an adult.

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