

Financial Tips for Parents of High School Graduates

Graduation includes new financial responsibilities and changes in family roles. This publication includes financial tips for parents regarding insurance, credit, banking services, and taxes. It is not intended to be inclusive of all the financial decisions families will face, but should start you on the road to making the necessary adjustments that will avoid costly omissions and unexpected bills. Each topic includes information that is worthy of a conversation with your graduate to ensure they have information to make good choices. Congratulations in reaching a new milestone for your family.

Jeannette Mukayisire
Human Sciences Specialist
Family Finance
319-882-4275
jeannet@iastate.edu

Insurance

Schedule time to visit with your insurance agent to determine what is or is not covered by your homeowner's policy. Dorm rooms are usually included in coverage, but your deductible may eliminate any benefits. Some insurance companies offer special riders for broad coverage on computers, jewelry, and other personal items. Inventory contents before visiting to determine what losses would be hard to absorb. If an apartment is the next step in housing, a renter's policy is usually affordable protection. Review what is covered and not covered by the policy along with deductibles.

If feasible, transfer your auto policy into your student's name. As a co-owner/co-insurer you will retain liability for losses. Premiums will be higher when a young adult has their own coverage. Clarify who is covered when driving the vehicle. It is recommended that you change coverage to liability only when the premiums exceed 10% of the value of the vehicle.

New health care reforms allow parents to extend their family health coverage to their children until they reach age 26 regardless of student status, marriage, or financial independence. Check your list of network providers in the new location for available health care providers. If insurance coverage is needed compare coverage to student health policies available through the school along with health services covered by student fees. The new graduate should be provided the necessary insurance cards to obtain services if they continue under your family health coverage.

Credit Scores

A good credit score means you are eligible for loans with reasonable interest rates. It also means you will be more likely to pay favorable insurance premiums, be less likely to be denied on an apartment rental application, be asked to pay lower utility deposits, and have one less obstacle to employment.

Poor financial choices which have a negative impact include late payments; not paying a debt, which results in the account being turned over to a collection agency; running up debt on a credit card that exceeds 30% of the available credit; having too many credit lines open.

Visit www.annualcreditreport.com to verify a graduate's credit history is clean. This report should be obtained annually to ensure a case of identity theft has not occurred and the information on file is accurate.

Until a credit history is established it may be necessary for parents or other adults to co-sign apartment applications and other requests for credit. Approach this responsibility with caution, ultimately anyone listed on a credit contract is obligated to pay a debt.

Credit

Legislation prevents anyone under the age of 21 from obtaining a credit card, unless there is a co-signer or proof of ability to pay. When a credit card is considered necessary, comparison shop for the best terms. Costs of card ownership vary greatly. Extras may include cash back offers and cell phone coverage. Limitations can apply making the extras of little value.

An alternative is to add your child to an existing card, but you may lack control over the amount that is charged. Clarify who will receive billing statements. Payment history will be reported to the credit bureaus for all names listed on the account.

Pre-paid cards are reloadable debit cards which allow you to spend what you have pre-deposited into the account and no more. Fees will vary. The history of use is not reported to the Credit Bureaus.

Banking Services

Decide the best address for statements, overdraft notices and other essential communication and notify the bank of any address changes that occur. Good practices for checking account management includes regularly balancing the account and retaining printed copies of the monthly bank statements. Online access to account information should be considered temporary. Proof of payment in the form of canceled checks may be delayed if you need to ask the bank to generate copies of older statements. They are allowed to charge for generating the reports.

Overdraft protection is available at some banks. There are usually upfront charges for the cash advance which can result in substantial fees, especially when triggered by a series of small transactions. Automatic transfers from savings may help, but banks are required to set limits on the number of transfers in a specific time period and add transfer charges after a minimum number. Debit cards can be set to block transactions if funds are low to avoid overdraft fees.

Taxes

The new Tax Law and Jobs Act of 2017 changed two areas of personal taxation that will impact parents. There will no longer be a personal exemption allowance for eligible dependents. Tax rules have not yet been written for changes in the Child Tax Credit or eligibility for the American Opportunity Credit. The following tips are based on tax laws prior to the new legislation.

Advise students who will be claimed as dependents to file W-4 forms with 0 for withholding. A series of low paying jobs often results in under withholding for federal taxes.

A dependent who has earned income over \$6,350 or unearned income over \$1,050 (2017) is required to file, and should always file if there is a refund. Self-employment income exceeding \$400 also mandates filing a return.

If the student is self-supporting and earning sufficient income to pay their own expenses they can claim the American Opportunity Credit. If the student is still dependent upon support from parents, the credit is claimed on the parent's tax return. The credit amount is \$2,500 per student each year for the first four years of college. Up to 40% of the credit is refundable depending upon Modified Adjusted Gross Income. The credit may be claimed when qualified expenses exceed scholarships, grants, and education savings plan funds. You will need a copy of the 1098T to complete this part of the tax return. Colleges make the form available through the student finance account in January.

Even a short term deposit into an Iowa 529 plan can result in tax savings for parents. You are allowed an adjustment to income in Iowa of up to \$3,239 per beneficiary by each parent in 2017. Information can be found at: <https://www.collegesavingsiowa.com/content/home.html>

Identity Theft

Habits at home don't always work in a new living environment. If living on a college campus, encourage students to carry their student ID and key at all times. It's never a good idea to surrender the ID as a security item; you may forget to retrieve it.

Don't leave the apartment or dorm room unlocked, especially when moving in as theft rates are highest during those hectic times. Photo copy the fronts and backs of all credit cards and leave copies at home. Don't leave credit card bills, ATM transaction receipts, or bank account statements lying around. When disposing of any papers that might have account numbers on them make sure they are shredded or otherwise torn into small pieces.

Never share your pin numbers. If a card is lost or stolen, notify the bank/credit card company immediately or use electronic apps to turn cards off. This will limit your liability for unauthorized transactions.

For electronic payments or transactions, use the cell phone carrier's service and not a wireless WIFI connection. Update cards to use chip technology if available.

Review security settings on social media and apps to limit tracking of locations and unnecessary exposure of personal information.

Legitimate businesses will send requests for personal information by mail, never email or phone. A recent email scam on a college campus offered free textbooks. Students who registered were giving away personal data to identity thieves. The best advice is "if it sounds too good to be true, it probably is!"

Cash Transactions

Collecting and saving receipts is often overlooked by young consumers. A file, box, or smart phone app to store copies can be invaluable to prove a payment was received or to obtain services when a product is under warrantee. Receipts for books, required supplies and other school fees that can be counted as qualified expenses are especially important when filing tax returns.

Spending Plans

Encourage tracking of actual amounts spent and draft a spending plan before leaving home. Electronic software can make this step more attractive for young people and several options are available.

It's hard to predict exact costs in a new setting, but waiting until you are settled in might be too late. Typical expenses include gas, food, entertainment, personal care, education supplies and fees. Apartment living includes rent and utilities. A written spending plan can remind a young person of future expenses and help them avoid an empty wallet.

Discussing the expenses you will cover and limitations of available resources, can reduce financial stress for both parents and young people leaving home.

Sources of Information

<http://www.extension.iastate.edu/finances/>

http://www.extension.org/personal_finance

<http://www.thirteen.org/finance/> (use the resource tab for additional links)

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