Top money tip for university frosh: Don't use plastic

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Three months from now, Tara O'Neill's cost of living will soar to new heights. That $400 she's dropping on prom? Peanuts.

The 17-year-old will probably be living under her parents' Brampton, Ont., roof this fall, but she will be paying about $10,000 for the tuition, books, transportation and other expenses at the University of Guelph's Humber campus – an amount that is on the low end of the scale for most students entering university.

Come September, debt will seem like an illusion to many students. Most who held part-time jobs in high school will confess that they have frittered away their earnings on movies and clothes. And now, as they enter a new chapter of financial responsibility, many will be woefully unprepared, experts say, as they face easy access to student loans, lines of credit and first credit cards (often pushed during the first week of classes).

The lucky ones have their parents' savings to fall back on, but with the price tag on tuition in Canada this year set at $5,138 for the average undergraduate degree (according to Statistics Canada), even those whose parents aggressively saved over the past 17 years will probably come up short.

But don't despair. Some high-school grads do have the right mindset: Avoid credit cards, limit discretionary spending and start saving what you can.

If students won't listen to their math teachers or parents, maybe they'll take advice from their peers. Here are tips from the teens.

Choose budgeting over easy credit

Tyann Brice, a 17-year-old from Bowmanville, Ont., makes little as a part-time tutor, but she still knows to stay far away from the shiny plastic answer to her bank accounts' limited reserves.

After seeing older friends charge everything from clothing to nights out and then struggle with monthly payments, credit cards repel rather than attract Ms. Brice, who plans to study zoology at the University of Guelph in September.

“I’d try to stay away from it,” she says. “That’s why I’m trying to get another job and save up.”

“Most [teens] are very ill equipped and ill prepared to have access to lines of credit and credit cards,” says Karin Mizgala, chief operating officer of Vancouver-based Money Coaches Canada. “When you’ve got those desires and your friends have the latest iPads and iPods and so on and you don’t have that but you’ve got a credit card, you say, ‘What the heck, I deserve it.’ ”

If parents do think that a credit card is necessary for their child, they should work out a repayment plan with them for each purchase, Ms. Mizgala advises.

While Ms. Brice’s parents are chipping in to cover her first year’s expenses, they have advised her to use her personal earnings to cover discretionary spending instead of turning to credit or a student loan. It should be an easy adjustment, since she already saves as much of her wages as possible, withdrawing only $20 a week to spend on lunches or transit to work.

If she lands a second job, she hopes to save $2,000 by the end of the summer to use as spending money during her first year of university.

“Now I’m like, ‘I need to start saving. My allowance is pretty strict unless it’s something I need to save up for.’ ”

Invest what you can
Andrew Lee posted an ad on classifieds site Kijiji at the start of the month, hoping that someone – anyone – would hire him for the summer.

“I’ve been getting a few e-mails, but most of them are pyramid-scheme kind of things,” the 18-year-old says.

His parents paid for his first year at the University of Toronto, but Mr. Lee will have to take care of the rest of his educational expenses himself. He plans to take out a student loan this fall to cover his estimated $6,000 in tuition and books.

While the earnings from the summer job he hopes to land will be directed largely toward paying down some of his tuition, he’s also doing something most young people don’t think about until after they’ve graduated: He’s putting some into a tax-free savings account.

Right now, he has $100 in the account and plans to make regular contributions while he’s still a student. “I was thinking $15 a week,” he says.

Modest? Sure. But he’s certainly on the right track, says Adrian Mastracci, president of Vancouver’s KCM Wealth Management Inc.

He recommends that all students, even if they have only a limited supply of cash to work with, start saving after they graduate from high school.

A low-fee or no-fee savings account is all that is necessary at that stage. “Let’s try not to get too fancy on the interest rate,” Mr. Mastracci says. “Let’s not make it too complicated when you only have a few dollars to work with.”

Don’t rely completely on parents or the government
Ms. O’Neill has never held a job and has a habit of spending birthday and Christmas money soon after it is deposited in her bank account. Thankfully, her first year’s expenses will be covered by a $2,000 entrance scholarship and by the savings her parents have built up since before she was born.

“Tara herself doesn’t have a dime. Thank goodness for parents with foresight,” her father, Sean O’Neill, said in an e-mail.

But Ms. O’Neill is also scrambling to find her first job this summer, since her parents have had their own recent financial struggles. “From them telling me about their problems, it’s making me want to get a job even more,” she says.

While her friends are filling out applications for student loans, she hopes to avoid any kind of loan – even those that are interest-free while she’s a student. She doesn’t want to repeat her older friends’ experiences. “The second you get out of university, you’re in debt and it’s really scary. You have to find a way you can pay that back without the money adding up,” she says.

Ms. Mizgala advises against applying for a loan that covers any more than the bare minimum – “tuition and living expenses and that’s it.”

She is also against bailouts from the bank of mom and dad. If parents don’t want their children to work during the school year to earn money for discretionary spending, they can pay them a weekly or monthly allowance in cash.

“When you look at what you’ve got in your wallet ... that’s what you have to spend for that week or that month,” she says. “It’s a very easy accounting system.”

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