Help Your Teen Use Summer Job Earnings Wisely

Teens with summer jobs might be earning their own money for the first time — but it won't be the last. The money habits they learn now could last for decades.

Here's how to help your teen make the most of a job and those paychecks.

Encourage goal-setting

Susan Beacham, founder and CEO of financial education company Money Savvy Generation and co-author of the "O.M.G. Official Money Guide for Teenagers," suggests teens ask themselves a few questions — perhaps with parental prompting — before job searching: Why do they want to work, and what needs or wants will the job address?

This helps them determine the kind of job to pursue, Beacham says. For example, your child might want hourly work in a potential career field, or maybe he or she wants to make money to contribute toward family finances.

And ideally, goal-oriented teenagers are more thoughtful come payday. Bailey Steger, a 17-year-old working at a restaurant in Half Moon Bay, California, just learned that she'll be responsible for paying for most of her college expenses besides tuition. She's now saving more of her earnings.

As an example, Steger mentions recently wanting to buy a cute — but pricey — shirt. Her mom reminded her that she'd have to dip into the paycheck she'd just received to buy it. And, just like that, Steger says, "that shirt wasn't that cute anymore."

Teens who know why they're working also tend to be more focused employees. A camp counselor wrangling kids in 90-degree heat might feel more positive if he plans to pursue a career in early childhood education. And a teen saving for a car might view her eight-hour shift as eight hours' worth of pay going toward new wheels.

Discuss investing opportunities

Saving for goals isn't the only smart step teens can take with their summer earnings. Beth Kobliner, author of "Make Your Kid a Money Genius (Even if You're Not)," suggests teens invest part of their earnings in a Roth IRA if they can. Workers invest post-tax income in these individual retirement accounts. They can withdraw contributions without penalties at any time, but they must pay taxes and fees to tap interest earnings before age 59 1/2.

Investors can contribute no more than they earn in a year to a Roth IRA, up to $5,500 per year. If your child earns $1,000 at her job this year, she can only contribute that much to her IRA.

Roths help young workers bank toward retirement and teach the power of compound interest. Say an 18-year-old invests $500 of his earnings this summer. If he invests $1,000 more each year with a 6% return until he's 65, he'll end up with $47,500 in contributions and $215,798 in earnings for a total of $263,298. If he'd waited until he was 28 to invest $500 and contributed the same amount each year at 6%, he'd have earned only about $138,000 at age 65.

Contributing to a Roth also encourages the savings habit. Automatic transfers from a checking account to an IRA can make contributing effortless, Kobliner says. Young investors can have a certain amount transferred every payday. The extra money for a cute — or not that cute — top just won't be in the checking account to spend.

Building this investing habit might benefit teens later, Kobliner says. When they're on their own and possibly cash-strapped, they'll likely be capable of finding extra money to invest. "It's like flossing," Kobliner says. "It's a good routine that sticks if you learn it early."

Make the abstract concrete

Beacham points out that teenagers are more likely to absorb and use money concepts when they aren't abstract.

When your child learns the pay rate and hours for her new job, get out the calculator to determine how much she'll earn over the summer. This will give her a realistic expectation of her earnings and perhaps prompt her to think about what she'll do with it.

Printing paychecks or receiving physical copies also solidifies how much your teen has earned — and can thus save or invest. With direct deposit alone, that money might seem easier to spend. And when it comes to explaining that IRA, point your child toward a compound interest calculator. That way, he can input hypothetical timelines and contributions and see that money multiply.

Whether it's handing teens a calculator or asking why they're working, parents can help them be more thoughtful with their earnings — now and in the future.

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