Economic Policy Institute

Dēmos

Paving the Way through Paid Internships:

A Proposal to Expand Educational and Economic Opportunities for Low-Income College Students

Kathryn Anne Edwards and Alexander Hertel-Fernandez

About Dēmos

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

Dēmos was founded in 2000.

Miles S. Rapoport, President
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About the Economic Policy Institute

The Economic Policy Institute, a nonprofit Washington D.C. think tank, was created in 1986 to broaden the discussion about economic policy to include the interests of low- and middle-income workers. EPI was the first—and remains the premier—organization to focus on the economic condition of low- and middle-income Americans and their families.

Bios

Kathryn Anne Edwards joined the Economic Policy Institute in September 2008 to work for the Economic Analysis Research Network, a network of state and regional multi-issue research, policy, and advocacy organizations. She currently works on young adult economic issues and oversees the design and management of EconomyTrack.org, a website that provides an interactive look at the U.S. labor market. Prior to EPI, she taught English in Eastern Europe and wrote for a satire magazine. Her areas of interest include state economic development, tax and budget policy, and public investment. She is a graduate of the University of Texas at Austin with a degree in economics.

Alexander Hertel-Fernandez works on social policy and young adult economic issues at the Economic Policy Institute and is a visiting researcher at the George Washington University. Alexander was previously a Senior Fellow for Social Insurance with the Roosevelt Institution. His research on social policy and the comparative political economy of social insurance has been published in Social Policy & Administration, the Bulletin of the World Health Organization, Social Policy Reports, the Journal of Aging and Social Policy, and Health Affairs. He is currently investigating historical trends in young adult economic risk and recent shifts in the politics of social insurance reform. Hertel-Fernandez holds a degree with honors in political science and public health from Northwestern University.

Nancy K. Cauthen is Director of the Economic Opportunity Program at Dēmos. She brings two decades of experience researching and analyzing public policies that promote opportunity and reduce economic hardship. Prior to coming to Dēmos in February 2009, Nancy spent 10 years at the National Center for Children in Poverty at Columbia University, where she served as Deputy Director and Director of Family Economic Security. Nancy's recent work has focused on expanding opportunity for young people, with an emphasis on ensuring that low- and moderate-income young adults have the chance to complete a postsecondary credential. She's done a considerable amount of research on federal and state work support policies such as earned income tax credits, child care assistance, and health insurance. Nancy received her PhD in Sociology from New York University and also holds degrees from the University of Michigan-Ann Arbor and the University of Wisconsin-Madison.

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Preface

by Nancy K. Cauthen, Director of the Economic Opportunity Program, Dēmos

A post-secondary education has become almost essential for getting a decent job and entering the middle class, and increasingly, internships are a critical part of the college experience. Yet financial constraints prevent many low- and moderate-income young people from seeking internships because such experiences are frequently unpaid. In a tight labor market, college graduates who have gained experience through internships have an edge on the job market. But the inequities go far beyond internships—a college degree itself is increasingly financially out of reach for young people from modest economic backgrounds.

Over the last 30 years, access to college has steadily improved. Nearly 70 percent of high school graduates enroll in some kind of postsecondary education immediately following high school. Importantly, access has improved across racial and ethnic groups and across income levels, although whites and students from higher-income families have made the largest gains. But despite these gains in access, college attainment rates have been practically flat: over the last decade, the percent of young adults ages 25 to 29 years old with a bachelors degree has remained just under 30 percent. In other words, more young people are *enrolling* in college but they're not *graduating*: as a nation, we're not producing a higher percentage of college graduates.

Vast inequities exist in who gets a college degree and who doesn't—and the most striking difference has to do with economic privilege. Young people from the most privileged backgrounds—that is, those with highly-educated parents and high family incomes—are eight times more likely to earn a bachelors degree in their mid-twenties than their peers from the least privileged backgrounds. And while there are a number of reasons for this, one thing is clear—going to college has become a lot less affordable.

Over time, states have slashed aid to colleges and universities and tuition and fees have risen dramatically. What's more, financial aid policies have gradually moved away from their original mission of making a postsecondary education accessible to those who can least afford it. Federal financial aid has shifted from awards based on financial need to loans. Further, the purchasing power of Pell Grants, the nation's largest source of need-based financial aid, has declined precipitously: thirty years ago, the maximum grant covered three-quarters of the cost of attending a public four-year college or university. But now the maximum grant covers only a third of the cost and most recipients don't receive the maximum.

Trends at the state and institutional levels have further added to the inaccessibility of higher education to low- and moderate-income students: state financial aid policies have shifted from need-based to merit-based student aid, and colleges have increasingly used more of their financial aid resources to attract the best-prepared students regardless of financial need.

Given these trends, the proposal by Kathryn Anne Edwards and Alexander Hertel-Fernandez of the Economic Policy Institute to provide paid internships to low- and moderate-income college students is particularly timely. The proposal addresses financial need while recognizing that a college degree alone is no longer sufficient to secure the best employment opportunities; employers increasingly expect college graduates to have real-world experience through internships. Paid internships for lower-income students would represent an important step toward leveling the playing field. This proposal could potentially make it more likely for such students to graduate and to do so with valuable, career-oriented experience that will better prepare them for the future. What a victory this would be toward restoring opportunity in higher education.

Executive Summary

Internships are no longer a rare added bonus for students, but now a standard component of the college experience. A national survey in 2006 found that 84 percent of college students at four-year institutions had completed at least one internship before graduation. It is not hard to understand why so many students pursue these opportunities. Internships offer a myriad of benefits: experience in an organization and industry that gives insight on careers, new skill training, and exposure to a network of professionals in a field of interest.

A national survey in 2006 found that 84 percent of college students at four-year institutions had completed at least one internship before graduation. To address the inaccessibility of internships to students of modest means, we propose the creation of subsidies for low-income college students to pursue paid internships at non-profit organizations or government agencies.

In an increasingly competitive labor market, internships also provide important and often necessary credentials for prospective job applicants. In spite of their value, the opportunity to pursue an internship is often limited by a student's socioeconomic status. The vast majority of non-profit and governmental internships are unpaid.[1] For a student of modest means, this price tag—having to meet living expenses without an income—is often too great, particularly since some of the most prestigious unpaid internships are located in expensive cities.

In this brief, we outline the limitations of the current college internship system and lay out a proposal that would enable low-income college students to pursue *paid* internships at either non-profit organizations or in government. We propose that the federal government initially appropriate $500 million in spending for the Student Opportunity Program to support about 100,000 low-income college students per year. This would be funded initially by capping contributions to section 529 savings plans (a recent recommendation of the Treasury Department to the White House's Middle Class Task Force) and consolidating the currently disparate system of higher education tax expenditures. Going forward, we envision increasing support for the campus-based components of our proposal to provide expanded funding to more universities and colleges.

The Student Opportunity Program will serve as a pipeline to college completion and employment for high-achieving, low-income students, helping them to acquire the skills, contacts, and experience that will improve their future labor market potential and encourage them to pursue careers in public service.

To implement the program, we recommend using the existing infrastructure of the campus-based Federal Work-Study program, but we also offer two alternative implementation mechanisms. These include having the federal government administer competitive grants to colleges and universities (particularly public institutions, including community colleges) to establish their own campus-level paid internship programs for low-income students and having the Office of Personnel Management administer grants to low-income students who secure internships in federal government agencies or Congress.

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Introduction

Millions of college students around the country are now anxiously awaiting the results of their applications for summer internships. Once a rare bonus for students, internships have become a standard component of a college graduate's resume. Although no formal data exist regarding the prevalence of internships, numerous reports in the media and from university career service offices document the increasing importance of these experiences. A national survey in 2006 by Vault, a career advising consultancy, found that 84 percent of college students at four-year institutions had completed at least one internship before graduation.

Students and university career service specialists cite the numerous advantages that internships provide: an opportunity to learn new skills, try out a certain industry or occupation, network and meet professionals in a field of interest, and get a foot in the door for future employment in a particular field. Internships provide a crucial bridge from being a college graduate to transitioning into the labor market.

Despite their value, the opportunity to pursue an internship is often constrained by a student's economic resources. Although for-profit firms are generally legally required to pay their interns, non-profit firms and government agencies are not subject to this restriction (interns are considered to be donating their time). This means that the vast majority of non-profit and governmental internships are unpaid.[2] For example, in Washington, D.C., a city known for attracting many high-achieving college students, many of the internships in the White House, Congress, and policy and research organization offer no compensation. In addition to forgoing wages for three months, students must pay for travel, housing, and other living expenses. For a student of modest means, this price tag is often prohibitive, particularly since most of the internships with the highest payoff are in expensive cities. Moreover, students from lower-income families are much more likely to have higher levels of student debt, making it even harder for them to afford unpaid internships. For example, we conservatively estimate that a three-month internship in Washington, D.C. would cost $4,050, excluding travel.

Grant aid for unpaid summer work tends to benefit higher-income students who already have greater access to internships.

Non-profit organizations and governmental agencies often justify having unpaid internships by helping students secure school credit, thereby offsetting tuition. In practice, however, this is often not an even exchange. Because interns are typically not enrolled as full-time students, they may not be eligible for financial aid. Although they may be receiving class credit, unpaid interns must still pay for housing, food, transportation and other living expenses. Moreover, some universities require that students pay a fee or percentage of tuition to remain enrolled if they are not on campus and receiving academic credit. Lastly, most universities set limits on the amount of credit that students may claim from internships. A student with a semester internship may not be able to receive a full semester's credit, so credits received from an internship may be of limited usefulness.

Although many elite and small liberal arts colleges provide grants for unpaid summer work, this aid is overwhelmingly concentrated at private institutions with greater resources, and it tends to benefit higher-income students who already have greater access to internships.[3] Also, the aid awarded is typically not sufficient to cover living expenses, particularly in high-cost cities. And it is often limited to specific sorts of opportunities. Further, the recession has forced universities and charitable foundations to cut back on scholarships and aid for internships. At the same time the recession, and greater competition in the job market, has made the experiences that internships offer all the more valuable to college graduates.

To address the inaccessibility of internships to students of modest means, we propose the creation of subsidies for low-income college students to pursue internships at non-profit organizations or government agencies. Not only would this policy potentially improve academic and employment outcomes among low-income students, it would also encourage students to pursue careers in public service and public policy, a key goal articulated by President Obama and members of Congress.

In this brief, we first outline the challenges that the current college internship system poses for low-income students. We then lay out three alternative proposals for providing grants to low-income college students to enable them to complete internships at either non-profit organizations or in government by: 1) building on the Federal Work-Study Program, 2) having colleges and universities compete for institutional grants to design their own programs, or 3) administering grants to low-income interns in federal agencies and Congress.

Background: The Haves and Have-Nots Among College Students

The American economic narrative has long been defined by opportunity. An increasingly necessary element of opportunity is a college education. Evidence shows that Americans believe in the importance of higher education; the number of young people who are pursuing post-secondary education is increasing dramatically. In 2009, 68.6 percent of 18-24 year-old high school graduates were enrolled in institutions of higher education, an all time high. By most measures, this is an excellent change in our labor market—college educated workers have a lower unemployment rate, higher earnings, are more likely to have retirement and health benefits, and are less likely to be poor. The most encouraging part of the increased enrollment in postsecondary education is that its benefits are shared across income tiers and ethnic groups. Low-income and minority students in particular have seen great increases in college enrollment rates (although stark disparities still persist).[4]

The rising cost of education coupled with stagnant financial aid has created an unequal playing field for college access and future employment opportunities.

While these gains in college enrollment are important, the rising cost of education coupled with stagnant financial aid has created an unequal playing field for college access and future employment opportunities. In 1979, the maximum award amount of Pell grants covered about 75 percent of the average total cost of attending a public four-year college, while in 2009 it only covered 35 percent. However, only 25 percent of Pell recipients received the maximum in 2008, and as a result, 87 percent of Pell grant awardees graduated with student loan debt in 2008. The inadequacy of financial aid and rising tuition has led to skyrocketing levels of debt among students. Two-thirds of students borrow money to pay for college, up from just under half in 1993.[5] The average debt for graduating seniors with student loans rose to $23,200 in 2008. For students attending private institutions, this number jumps to $27,650.[6]

The broken financial aid system generates a two-tiered structure of college students. On the first tier are students from high income families with the financial resources to pursue their studies, graduate, and leave college relatively debt free. On the second tier are students from disproportionately low- and moderate income households who become saddled with debt and must work long hours to fund their education, compromising their ability to graduate.

The leading reason that students cite for either dropping from full- to part-time enrollment or for leaving school altogether is the difficulty of balancing work and classes.[7] Just 38 percent of community college students under the age of 24 have a degree after six years of enrollment. The main reason, in turn, for students to work part- or full-time during college is that they cannot afford the cost of education—63 percent of young community college students said that they would not be able to attend school without working.[8] Among these working students, 58 percent said their work was not "related to their major or coursework".[9]

The lack of adequate funding then, limits the choices of students in the second tier both during and after their undergraduate education. The first tier graduates can afford to forgo wages each summer to pursue unpaid work experiences, while the latter is highly dependent on financial aid and employment, and therefore often cannot afford unpaid internships, particularly those that require temporary relocation.

Unpaid internships themselves may also be a source of economic insecurity even for students who can afford to pursue such opportunities. As the *Chronicle of Higher Education* describes in a recent article, "[t]uition hikes, textbook costs, student-loan rates, and credit-card marketing generate considerable public outrage, but graduates saddled with debt may also have unpaid or low-paying internships to blame."[10] The pressure to complete an internship before graduation backs many low-income students into a corner: they can either take a paying job during the summer to earn money and not go further into debt, or they can take out additional loans to finance a summer internship. Both options hurt them in the long-run, by either limiting their experience and therefore marketability as a job candidate, or by accruing more debt.

Background: Why Low-Income Students Need Access to Internships

Most employers recognize the importance of internships as a form of education and training and expect successful applicants to have completed at least one previous internship or similar work experience before attempting to enter the labor market. In a representative survey, Michigan State University researchers found that 50 percent of new college graduate hires in 2007 had previously completed internship experiences at the firm at which they were hired. The National Association of Colleges and Employers (NACE) conducted a separate representative survey of employers and found that 76.3 percent of firms reported relevant work experience as the primary factor when making hiring decisions. The increasingly competitive labor market makes previous work experience in the form of internships all the more valuable—NACE's employment prospects survey for the class of 2009 found that only 14 percent of graduates without previous intern experiences had secured employment by April, compared to 23 percent of graduates with at least one internship.

76.3 percent of firms reported relevant work experience as the primary factor when making hiring decisions.

Although conventional wisdom states that one cannot put a price on experience, this maxim is not preventing some new companies from trying. A recent *New York Times* article highlighted the growing trend of parents paying private companies to find an internship for their children. The University of Dreams, for example, charges $8,000 per person for the guarantee of an eight-week internship with housing in New York City. A similar service in Washington, D.C. charges $5,195, on top of a $60 application fee, with an optional $3,395 for housing. Although unethical to make students pay for the right to unpaid work, the existence of these services shows the unequal access to these opportunities and the subsequent inequalities they create for students who cannot afford them. Moreover, they are indicative of the changing burdens that college students today face relative to previous generations. As an increasing number of young adults pursue higher education, students must perform ever more in order to distinguish themselves from their peers.

Internships also help students better match their skill sets to future jobs, both by exposing students early to different careers, and by providing them with a pipeline to employment after graduation. Recent research from the Center for Labor Market Studies at Northeastern University shows that less than half of all recent college graduates are in a job that matches their education and skills.[11] According to Andrew Sum of Northeastern University, it can take "between six and nine years for graduates working in mismatched or low-skill jobs to catch up with their well-matched peers."[12]

Many traditional college students have not experienced employment in a professional workplace before enrolling in school. Internships thus provide the first opportunity for many students of what future employment in a field of interest will be like, giving them an opportunity to function in a professional environment.

Design and Implementation of the Student Opportunity Program

To address inequality in access to unpaid experiences in non-profit organizations and government agencies, we propose a new initiative—the Student Opportunity Program—that would provide financial support for low-income college students who choose to pursue summer or semester-long internships. We highlight three potential implementation mechanisms that could be used individually or in tandem with one another.

We recommend using the existing Federal Work Study (FWS) program to screen students and administer internship grants. FWS provides aid for higher education that is earned through part-time employment. Approximately 3,400 colleges and universities participate in FWS. Eligibility is determined through the Free Application for Federal Student Aid (FAFSA), but financial aid administrators at each school have substantial flexibility to determine award amounts and define qualifying employment. Employment is largely located on university campuses, although schools also allow for work at certain local non-profits as well. In fact, at least seven percent of the positions that colleges offer must be in community services organizations.

The benefit of using FWS is that it already exists at many schools and is familiar to hundreds of thousands of students. A key challenge in creating new aid initiatives is building the capacity to administer them. Using FWS would capitalize on existing resources already present on campuses.

Under the new initiative, the federal government would provide individual institutions with funding to operate Student Opportunity Programs. Individual schools would receive funding based on the proportion of their students who are low-income students and receiving financial aid. Each university would thus have considerable discretion in the creation and administration of their own Student Opportunity Programs so long as their selected students met the income eligibility requirements established by the federal government. Using FAFSA, which students are required to fill out for financial aid, Student Opportunity Programs would set the eligibility limit at 300 percent of the Federal Poverty Line, which in 2009 was $66,150 for a family of four. Students would apply to the program through their financial aid office, either choosing from internships identified by their institution or presenting their own proposal for an internship. Student Opportunity Program grants would be paid to interns through each individual school. After the income requirement, selection to the program would be left to individual universities, but we recommend that university-level selection criteria be based on academic performance so that the program awards high-achieving students.

FWS offices at some campuses may not be able to handle the new responsibilities associated with screening internships, and thus, we propose including a clause that allows universities to develop their own mechanisms for administering Student Opportunity Program grants should they feel that their FWS office would be ineffective (for example, through a Career Services office instead). Nevertheless, the majority of schools ought to be able to use their FWS offices to administer the internship grants. In our calculations of the proposed coverage, we assume that the costs of administering the Student Opportunity Program would be half that of FWS.

However the program is implemented and students selected, the award amount for students should be uniform (or at least relatively similar) across different schools. We propose setting Student Opportunity Program funding equal to $3,500 for three month (summer) grants and $7,000 for six-month grants. Other amounts—say for quarters or semesters—could be administered to students so long as they adhered to the same monthly payment amount. Depending on the location of the internship, recipients could be eligible for up to an additional $1,000 cost-of-living adjustment. The formula for geographic adjustment will be determined by the Office of Federal Aid in the Department of Education. To keep up with changes in the cost of living, grant amounts would be indexed to the average working wage for non-supervisory production workers, a superior method to indexing to inflation.[13] In order to ensure fairness, schools would be required to fund all eligible new applicants to the program before administering grants to students who have already participated.

Time restrictions on the length of the internship would prevent students from working for less than the federal minimum wage if the employers adhere to a 40-hour work week schedule. Each internship award will require an entry and exit letter from a previously designated supervisor at the host organization to confirm that the internship was completed and to certify that the intern works for 40 hours per week, a standard for students receiving private awards today.

Although we recommend delivering internship support through the FWS system, we highlight two other complementary options for administering grants. The first would offer competitive grants to schools (especially public colleges and universities serving disproportionately low-income student populations) to establish their own individual internship support programs. The second would use the Federal Office of Personnel Management to administer grants to low-income students who have secured internships in federal agencies or in Congress.

1) Grants to Colleges to Establish their Own Individual Internship Support Programs

A new office within the Department of Education would be charged with administering competitive grants to colleges and universities who would in turn implement internship support programs for low-income students (defined as family income less than three times the poverty line) on their own campuses. These sorts of support programs are already present at many private, elite universities but are lacking in the majority of public or community colleges. Therefore, the institutional grants program would relate the size of grants to the share of low-income students present at an institution, and would favor small and low-income public and community colleges. Internship programs could be used only to support work at non-profit organizations, or independent work or research experiences by students as monitored by faculty members. While a small share of each grant could be used to cover administrative costs, the majority of the funds would be used to directly fund low-income students. Internship programs could only support work at non-profit organizations or in the federal government.

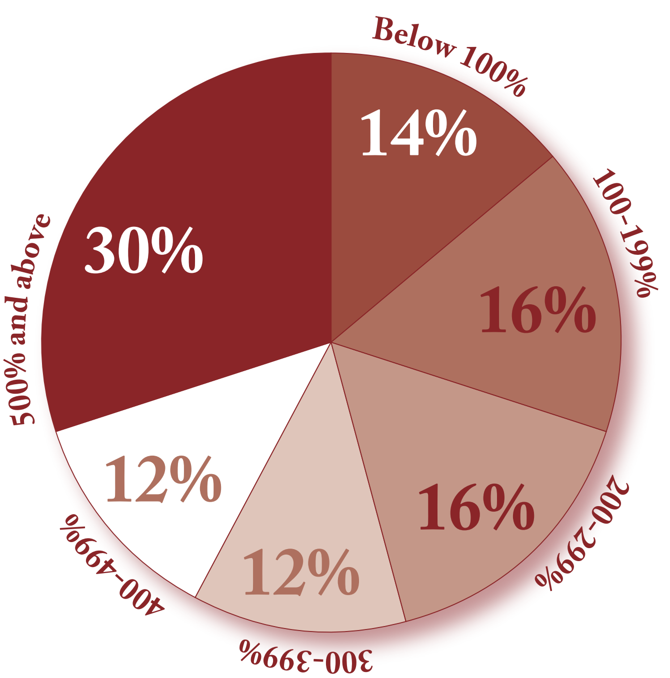
2) Grants to Low-Income Interns in the Federal Government and Congress

Under this option, low-income students (with family income less than three times the federal poverty line) who have secured an internship in the federal government or Congress would be eligible for support in the form of a stipend administered through the Office of Personnel Management. We conservatively estimate that there are 22,000 federal interns eligible for income assistance each year (that is, who have family incomes below three times the federal poverty line). Family income would be verified through the Free Application for Student Aid (FAFSA). Along with this option, we propose that an additional one-time payment of $5 million be dedicated towards helping federal agencies either implement or improve their internship programs. This support would be administered through a competitive grant program run by the Office of Personnel Management.

For both of these implementation mechanisms—competitive grants to individual institutions and support for federal and congressional interns—we recommend the same award levels discussed previously: $3,500 for summer (three-month) internships and $7,000 for six-month internships and annually indexing these awards to the average wage of non-supervisory production workers. Internship support must not be lower than the federal minimum wage given the number of weeks and hours that a student works in an internship.

Coverage of the Student Opportunity Program

Figure 1:
Distribution of Enrolled Full-Time College Students Aged 16-24 by Family Income (Percent of FPL)



Source: Authors' analysis of CPS-IPUMS data for 2009.[15]

Figure 1 shows the distribution of full-time college students ages 16 to 24 in 2009 by family income as a percent of the federal poverty level (FPL). Students ages 16 to 24 make up about three quarters of all college students, and 86 percent of these young students are enrolled full time.[14] Of the approximately 9 million full-time college students aged 16-24 in 2009, just under half of these students (46 percent)—or about 4.14 million—have family incomes below three times the FPL. These students would be income-eligible for the Student Opportunity Program.

Funding the Student Opportunity Program

We identify two possible sources for funding a new Student Opportunity Program: consolidating the currently disparate system of higher education tax credits and administering a cap on beneficiary contributions to section 529 college savings accounts.

1) Reform of the Tax Treatment of Higher Education Spending

Funding for the Student Opportunity Program could come from consolidating tax expenditures currently offered for higher education. These include the Hope credit, the Lifetime Learning credit (LLC), and the student loan interest deduction. This is a policy option reviewed by the Congressional Budget Office in its annual "Budget Options" report as a potential source of revenue for the federal government.

The Hope credit allows people to subtract up to $1,800 (2008 rate, amount indexed for inflation) for higher education expenses (tuition and fees) from the amount of income tax they owe. The credit can be claimed for each student in the household; the student must be the taxpayer, the taxpayer's spouse, or taxpayer's dependent. The credit applies only to expenses incurred for the first two years of a degree. Only households with a modified adjusted gross income less than $58,000 (or $116,000 for joint filers) are eligible.

The Lifetime Learning Credit allows people to subtract up to $2,000 (up to 20 percent of first $10,000) for higher education expenses from the amount of income tax they owe. The LLC applies if the student is the taxpayer, the taxpayer's spouse, or the taxpayer's dependent. Unlike the Hope credit, it can be used for expenses beyond the first two years. However, a taxpayer cannot claim both credits for the same student.

Lastly, there is a maximum income tax deduction of $2,500 for interest paid on student loans. In order to claim this deduction, the student in question must be enrolled at least half-time in a degree-seeking program and the filer must have a modified adjusted gross income less than $70,000 ($145,000 for joint returns).

In its most recent volume of *Budget Options*, the Congressional Budget Office outlined a plan to combine the tax benefits outlined above into a single tax credit for higher education.[16]

> "For students in their first two years of postsecondary school, the first $10,000 of tuition and fees would qualify for a 20 percent nonrefundable subsidy. For students more than two years into their postsecondary education or for those attending school less than half-time, the credit would have a 15 percent subsidy rate. The current deduction for interest on students loans would be eliminated, the first $2,500 of such interest would count as a qualifying tuition expense under the new plan. The credit could be claimed for each student in each household."

Under this option, the starting point of the phase-out range for the tax credit would be $60,000 for single filers and $120,000 for joint filers, both indexed for inflation. Beyond that point, each additional dollar of adjusted gross income would reduce the credit by 5 cents until the credit was completely phased out (around $90,000). CBO estimates that it would provide higher average benefits to households than current law and raise revenues by $16.4 billion over the ten-year window.

2) Limiting Section 529 Plan Contributions

Funding for the Student Opportunity Program could also come from limiting contributions to section 529 college savings accounts. Section 529 refers to a section of the U.S. tax code that permits the creation of qualified tuition payment and savings programs that receive preferred tax treatment (equivalent to a Roth Individual Retirement Account). Currently, 49 states and the District of Columbia offer such plans, along with a consortium of 127 private colleges that operate their own independent plan. There are two kinds of 529 plans: prepaid tuition and college savings accounts. In the former, an individual can purchase future tuition credits for a designated beneficiary. The payments for educational expenses are invested by the plan sponsor, and are then later used to pay for future college attendance by the beneficiary. In a college savings plan, payments are made into an investment account for a specific beneficiary to use towards educational expenses. In both types of plans, payments into the accounts are made with after-tax dollars, returns to investments are not taxed, and payments from the account are not taxed so long as they are used towards a beneficiary's qualified higher education expenses, including tuition and fees, as well as room and board. The majority (nearly 90 percent) of Section 529 assets are in college savings accounts.

Section 529 plans have grown in popularity in recent years. Because of the distribution of investments and assets, these accounts tend to convey disproportionately more benefits to higher income individuals.[17] According to the 2007 Survey of Consumer Finance, households in the top five percent of income with education savings plans held an average balance of $106,250, an amount more than ten times the balance for the 50th-75th income percentile.[18] Although states limit the amount of contributions into Section 529 accounts (generally pegged to the cost of four years of undergraduate education at a private institution or three years of graduate training), limits are designated per beneficiary *per state*. As 43 states permit non-residents to open Section 529 accounts, it would be possible for an individual to open plans in 44 states. Given this potential inequity, a 2009 report by the Treasury Department for the White House Middle Class Task Force recommended making Section 529 contribution limits per beneficiary, thus limiting the tax benefits that could accrue to high-income families and freeing federal funds for additional educational spending on disadvantaged students and their families. The funding generated by such a cap on contributions could be used towards financing the proposed Federal Work-Study initiative.

Initial Program Implementation: Funding and Enrollment

Initially, we propose $500 million per year to be spent on the Student Opportunity Program. If this funding were delivered through the Federal Work-Study program, we estimate it would provide support for about 100,000 internships per year (or about 4.3 percent of income-eligible college students) If this money were split between institutional grants to colleges to start their own campus programs and between the federal government to support all low-income interns, we estimate the program would support 80,000 internships per year (or about 3.5 percent of income-eligible college students). Going forward, we propose that the program increase funding each year with the goal of supporting a fifth of all income-eligible students, or about half a million internships per year. We estimate that this would require between $1.5 and $2 billion in spending per year.

Complementary Policies

Although the central goal of the Student Opportunity Program is to provide financial support for low-income students, there are several other initiatives that could complement and enhance the operation of the program and benefit all students, regardless of income.

Internship Database

The success of the Student Opportunity Program depends on connecting participating students with the best internship possible—internships that provide meaningful work experience, preferably in the student's field of study. Yet internship searches are often constrained by the lack of readily accessible information. Moreover, it is inefficient to require individual students to research and compile an exhaustive list of all the internship possibilities in their field. Students need to know where to look.

We propose that the new Student Opportunity Program office at the Department of Education create and manage a comprehensive, centralized database for internships, with the ability to search by location and field. Most university career service offices already compile internship opportunities based on the experiences of prior students. Moreover, there are already a number of private companies that provide similar database services for a fee. A centralized database would combine the resources already available and make them accessible to all students, thereby simplifying the process of finding the best internship possible. Although funding can only target a limited number of students, a database would provide a universal benefit.

Beyond the direct benefits to individual students, a centralized database could facilitate implementation of the initiative. It would require all internship providers to register, making the verification process easier for campus administrators. Lastly, a central database is a natural draw for students and could therefore be used to publicize Student Opportunity Programs, other scholarships, or general resources for interns.

Government Internships

Unpaid internships can only be legally offered by non-profit institutions or the government. The Student Opportunity Program only supports unpaid internships, and thus will be channeling a number of qualified and hard working students to government offices on all levels. To meet internship demand and ensure quality internships, $5 million in competitive grants should be awarded to federal and state governments to revamp their internship programs. This initiative offers several benefits. First, it would ensure that there will be a supply of internships available in a wide array of fields. Second, it would expand the geographies represented with internships and could easily be directed to target low-density states. According to the Vault Inc. *Annual Guide to Top Internships*, a survey of over 1,000 internship providers, there is a stark geographic disparity in internship opportunities. The number of employers who provided internships in Washington, D.C., for example, was 150 percent more than the number of employers who provided internships in the 25 smallest states combined.[19] Third, and perhaps most importantly, it would encourage qualified and successful students to pursue a career in public service.

Enforcement

It is generally illegal for for-profit companies to have unpaid interns; however, this is commonplace practice.[20] Companies take advantage of lax enforcement, combined with an ample supply of willing students, to sidestep regulations. A new government internship initiative aimed at properly compensating students for internships would be remiss if it were not coupled with a concerted effort by the Department of Labor to identify and penalize companies exploiting unpaid workers.

Conclusion

Internships provide an increasingly important experience for college students and their future employment prospects. Yet the financial obligations presented by unpaid internships are an obstacle for many low-income students who may already face high levels of student debt, reinforcing the divide between the "haves" and "have-nots." The government thus has an important role to play in democratizing access to internships. We call for the implementation of a new system of grants for low-income, high achieving college students to pursue internships with governmental agencies and non-profit organizations. These initiatives would foster opportunity for low-income students, affording them a better chance to compete with their higher-income peers.

As Matthew Segal, founder of the youth advocacy organization 80 Million Strong, notes: "[a]t its core, this is an issue of representation. Representative democracy depends on the input, perspective, and experience of all of its citizens, not just the privileged few. If the majority of young America is saddled with debt in order to work pro-bono, or prevented from the active citizenship experience of serving government because of financial hardship, then we are condoning a discriminatory system."[21] Opening the halls of government and other non-profit organizations to all students would encourage future employment in public policy and public service, an essential part of our democracy.

Endnotes

1. Based on author's analysis of: Wise, Carolyn C. "The Vault Guide to Top Internships, 2009." Vault, Inc.
2. In fact, the Congressional Accountability Act passed in 1995 amended the Fair Labor Standards Act to explicitly exempt Congressional interns from minimum wage and overtime protection.
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18. Kevin Carey, "That's Rich! The Treasury Department on 529's *The Chronicle of Higher Education*", Brainstorm Blog, 9-9-09, http://chronicle.com/blogPost/Thats-Rich-The-Treasury/7983.
19. Those states are: Alabama, Alaska, Arkansas, Delaware, Hawaii, Iowa, Kansas, Kentucky, Louisiana, Maine, Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, West Virginia, Wisconsin, and Wyoming.
20. (2009). Wise.
21. Segal, M. "Ensuring Economic Opportunities for Young Americans." Testimony before the Committee on Education and Labor, U.S. House of Representatives. October 1, 2009.

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