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The intersection of college admissions and affordability.

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Why College Co-Op Programs Totally Rock



College Co-Op Students Gain Experience, Money, a College Degree and Job Offers

“I made \$46,000 working as a Co-Op student for a great company while I was getting my college degree from a well-known university, and now the company that I did my Co-Op with wants to hire me.” This isn’t too good to be true. The truth is that College Co-Op programs totally rock, and I could have gotten that quote from thousands of Co-Op students nationwide.

There are several reasons why college Co-Op programs rock.

Added Work Experience and Job Offers

Think about this: One student goes to college, tries to find a job in the summer just to help with expenses, and then graduates on time with good grades but no work experience, and a boat load of student loans. Another student goes to college for the first half of the year, then goes to work at a company that is part of her university’s Co-Op program, gains six months of work experience for which she is paid \$11,000 – \$18,000, then goes back to campus to learn in the classroom, repeating this cycle until she graduates with both a degree and meaningful work experience.

Both students apply for the same position at the company where Student Two worked in her Co-Op. Student Two has the same degree as Student One, but Student Two has substantial work experience with the hiring company. Which student gets the job?

Pay

Financially, Student Two is likely to be about \$30,000 to \$60,000 better off on the day they toss their hats into the air at graduation, because Student One had to take out \$27,000 in Federal Stafford loans to help pay for college over four years while Student Two, even if she does take out the same amount of student loans, would be \$30,000 ahead because she did three Co-Ops that paid her a total of at least \$30,000. If she was in a program of study in which Co-Op students are earning as high as \$18,000 and she didn’t

need to take out any student loans, she would be over \$80,000 ahead of Student One.

Now, I'm not saying that a Co-Op guarantees anyone a job, and some Co-Ops don't even pay students, but education and experience are critically important when competing in our modern day ultra-competitive workforce. Thus, Co-Ops make a lot of sense even if they don't pay kids a whole lot of money; but the fact is that they usually do, up to \$46,000 in fact at Drexel University, RIT and the University of Cincinnati to name a few.

The Financial Aid Advantage

But Co-Op students have another little-known advantage over "regular" college students. Until recently, Co-Op earnings counted against students' need-based aid eligibility yet now, for federal student aid purposes, they no longer do. Which means that if our "regular" college kid gets a fantastic summer job and makes \$10,000, a good portion of it after an income protection allowance in the aid formula is factored in, will count against the student's aid eligibility. The Co-Op earnings of Student Two do not get counted as student income in the federal aid formula when students complete the Free Application for Federal Student Aid (FAFSA), so Student Two could potentially also be eligible for a greater amount of financial aid than Student One.

Joan McDonald, VP of Enrollment Management at Drexel University agrees, "Students' co-op earnings no longer increase the 'estimated family contribution' which is used as the basis for calculating how much a family or student can afford to pay and is the foundation upon which we determine financial aid for students. This was a change within the last year in how the federal government treats student earnings and it means that students can maintain, barring other changes to the family or student's income, the same level of need-based financial aid. This is a very nice benefit for Drexel students who earn, on average, \$15,000 for each six month Co-Op experience."

Affordability

In fact, with the new federal aid rules and the high amount of income students can earn in Co-Op programs, it is possible that a student could pay for college with a combination of financial aid and Co-Op earnings. That does rock.

Tax Strategies

Students who do not qualify for need-based financial aid can potentially use the Co-Op earnings to get around paying the Kiddie Tax on investment income, and could possibly implement additional tax-saving strategies to achieve what I call, "tax aid," tax savings related to college funding that can "aid" the family in paying for college or accumulating supplemental assets for retirement.

Avoiding The Kiddie Tax

The Kiddie Tax is enforced for children under age 19, and college students ages 18-24. Under the Kiddie Tax rules, the first \$1,900 of unearned income (interest, dividends and capital gains) that the student has is taxed at the child's tax rate, and all unearned income in excess of \$1,900 is taxed at the parent's typically higher tax rate. The only way to get around the Kiddie Tax

is if the student provides greater than half of her support from earned income only. This is where the Co-Op earnings can open the door to tax savings.

At the level of income Co-Op students are being paid in a given year (\$11,000 – \$18,000 over six months), it is possible that Co-Op students could provide more than half of their own support, basically half of the annualized cost of college from the income they earn through this work. In our example above with Student Two, if she provides greater than half of her own support from her earned income, she would get around having to pay taxes at her parents' higher tax rate on her investment income because she will avoid the Kiddie Tax.

0% Capital Gains Tax On Investment Profits

This means that if Student Two has some investments that are worth more than what she paid for them (*i.e.*, capital gains), she could sell those appreciated assets in her account, realize the long-term capital gains on her tax return and, because she gets around the Kiddie Tax, she would be paying capital gains tax in the lowest tax bracket (under \$35,350 for single filers in 2012). And for the lowest tax brackets of 10 and 15 percent in 2012, the long-term capital gains rate is 0%. That rocks too.

The 0% tax rate on capital gains is scheduled to go away at the end of 2012, but even if the tax rate jumps up for future years, this would still be a very tax-efficient tactic in comparison to selling appreciated assets in the parents' or grandparents' accounts and having to pay capital gains taxes at their much higher rate.

Tax-Saving Tactics For Students Who Don't Qualify For Need-Based Aid

Of course gifting assets to a kid who qualifies for need-based aid is not a good idea because the extra assets will decrease the student's aid eligibility. Remember, I said this strategy is for students who do not qualify for need-based financial aid. For my more affluent clients, however, whose children don't qualify for need-based aid anyway, I use this strategy frequently and it's usually worth \$5,000 – \$15,000 in tax savings per year per child. Add these savings to the student's Co-Op earnings and any merit-based financial aid she gets and it can all easily add up to \$100,000 or more per student. You see, having a college planning strategy is important!

What's more, since I was trying to avoid a lengthy tax dissertation here, I left out additional tax-saving tactics that could boost the effectiveness of this overall strategy further. It is possible to use the student's standard deduction, personal exemption and the American Opportunity Tax Credit on her tax return to eliminate the federal tax on tens of thousands of dollars of income. And with earned income, these kids are eligible to make contributions to Regular and Roth IRAs as well.

Summary

In summary, college Co-Op programs are the best way for today's college students to earn a college degree, gain valuable work experience, make money to pay for college and position themselves for getting a job upon graduation. Many Co-Op programs pay students an average of \$11,000 – \$18,000 over their six months of Co-Op employment, and those earnings do not decrease the student's eligibility for need-based financial aid. In

addition, there may be some tax strategies that students can implement to reduce the federal tax on their Co-Op income and potentially, even their investment income.

Co-Ops offer a logical structure for success. They give college students the benefit of book knowledge in combination with real-world experience. Students get to learn on the job and in the real world what a particular profession is all about. Students get a chance to put their education into action for 3-6 months in a real job, and then invest the next 3-6 months back in the classroom mastering what they need to know next. It's a building process of learning, working, discovering and earning. The Cooperative Education model works because the education is right, the experience is real, the money is rewarding and the job offers are robust. If you couple that with some of the tax and financial aid tactics that I have outlined above, you can create a college Co-Op strategy that totally rocks.

There's more to the College Co-Op story. Check out these very interesting posts that were launched as part of my feature on College Co-Ops. Check out my other posts on [College Co-Ops Go Global](#), the interview with two college Co-Op experts at the university that started it all, [College Co-Op Pioneer Is Still Leading The Charge After 100 Years](#) and my video interview with the President of Drexel University (a leading Co-Op university), [This College President Is A Game Changer](#).

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