

Facts About College and University Endowments

College and university endowment funds are an important source of revenue which support teaching, research, and public service missions. Endowments are complex; they usually consist of many—sometimes thousands—of different funds. Most of these funds are subject to restrictions that donors impose and that institutions are legally required to uphold. Endowment funds are managed to provide a current and continuing source of income to support institutions' missions.

Charitable donations are the primary source of funds for endowments. Donors—individuals, foundations, and corporations—typically restrict their gifts to specific purposes such as establishing student scholarships, creating professorships, or constructing new facilities. Unrestricted gifts enable institutions to support general operations or special initiatives. Endowments typically grow over time through a combination of new donations and investment returns.

Colleges and universities spend endowment income on a wide variety of purposes. These include financial aid (institutions provided \$29.1 billion in grant aid to students in 2007-8, much of it from endowment income); teaching (faculty chairs and professorships); scientific and scholarly research (including facilities); healthcare (patient care and research at university medical centers are subsidized by endowment income); public service; libraries and museums; and athletics.

Most, though not all, endowment spending is dedicated to purposes legally specified by donors. At institutions with large endowments, endowment spending contributes significant resources toward their operating budgets; in some cases, it is the institution's largest source of revenue. Endowment spending helps to keep tuition below the level that would be necessary if tuition alone paid the true cost of educating a student. Institutional governing and advisory boards, as well as government agencies, help to ensure that endowment income is spent for its intended purposes.

Endowments are managed for the long term to strike a balance between addressing current needs and preserving purchasing power to fund future operations. A typical college or university pools together its many individual endowments into a single investment fund, much like a mutual fund, which allows for a consistent investment approach. Because endowments are established to exist in perpetuity, the funds are usually invested for the long term. This permits access to high-quality investment vehicles and provides a broader set of investment possibilities. While this allows institutions to better control risk, endowments clearly are not immune from market fluctuations. For example, last year (2007-08), the average university endowment investment return was -3.0 percent. Earlier in this decade, endowments returns were -3.6 percent from 2000 to 2001, and -6.0 percent from 2001 to 2002. A number of institutions are reporting significant losses for the current fiscal year – from July to November 2008, the average endowment investment return was -22.5 percent.

Most college and university governing boards adopt endowment spending policies designed to maintain strong and smooth spending, while achieving intergenerational equity. The principle of intergenerational equity is to provide future generations of students and faculty at least the same level of support from an endowment as the current generation. Typical policies aim to prevent weak investment returns such as those prevalent in the current market downturn from forcing significant spending reductions. When returns are robust, the rules help ensure that any increased spending can be sustained into the future. The resulting financial stability is crucial; the activities of college and universities are primarily long-term and not easily started and stopped. These careful strategies often lead to real growth in the endowment and thus additional benefits to current and future students and society. Most institutions aim for a 4-5 percent payout each year. An annual investment return of approximately 9-10 percent is needed to: achieve the typical spending or payout rate goal of 5 percent; keep up with inflation (2.5-3.5 percent); and pay management costs (1-2 percent).