Endowments
Frequently Asked Questions

What is an endowment? An endowment is comprised of all financial assets that are intended for the long-term support of a college or university. Endowments are built up over many years, primarily with donated funds. Some of those funds are given for a specific purpose, such as establishing a scholarship or new building construction, while other donations will be for the general support of the institution. As a result, each college and university will have a different mix of endowment funds.

How do endowments work? Endowment funds are managed to provide a permanent source of income to support the educational mission of a college or university. The endowment, a set of pooled assets, is generally comprised of many individual funds and is invested in a purposeful and accountable manner in order to generate income that will:

- honor the donors' intended purposes for their gift;
- support the operating budget of the institution; and
- be re-invested to protect the value of the endowment against inflation.

Colleges spend funds withdrawn from endowments for a wide variety of purposes, including: scholarships, academic programs, faculty positions, library acquisitions, and buildings and grounds. Spending from endowments is managed according to the principle of "intergenerational equity," the view that today's students, and incoming classes of students in future years, should benefit from similar levels of endowment support.

How much money is held in endowments? NACUBO conducts an annual survey of its member institutions to gather information about endowment management. The study does not include all institutional endowments but represents the majority of higher education endowment dollars; 765 institutions participated in the 2006 study, representing more than $340 billion.

What is a spending rate? For purposes of the NACUBO study, the spending rate is defined as the percentage of the beginning market value of the investment pool that is withdrawn annually for institutional spending. Unlike how many private foundations calculate their spending rate, the spending rate in NACUBO's study does not include any expenses for managing and administering the endowment. Over the last decade, college and university endowment spending rates have averaged between 4.5% and 5.1%.

What is a spending policy? While endowment earnings rise and fall with market performance and investment approaches, most institutions adopt and adhere to spending rate policies that enable them to generate a steady stream of income. This financial stability is crucial to institutions, whose mission-critical activities are chiefly long-term and not easily started and stopped (e.g., the funding of faculty positions or ongoing maintenance and renovation of aging campus facilities). Spending policies are generally reviewed and adopted by the institution’s governing board. In addition to the board, there are several constituencies such as students, faculty, alumni, local residents, and government agencies that play an oversight role to ensure that college endowment funds are spent for their intended purposes.

Based on NACUBO’s most recent findings, the vast majority of institutions (84%) reported that as part of their institution’s investment policies, they have a formalized spending policy. The most common spending policy (used to determine a given year's spending) is to spend 5% of the 3 year average of the endowment market value.

References:

- National Association of College and University Business Officers (NACUBO). *2006 NACUBO Endowment Study (NES)*.
- American Council on Education (ACE). 2000. *Understanding College and University Endowments*.
- Yoder, J.A., 2004. *Endowment Management: A Practical Guide*. Washington, DC: Association of Governing Boards.