Remarks by Shirley M. Tilghman, President of Princeton University and Vice Chair of the Association of American Universities

Roundtable on Endowments and College Costs

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Thank you for the opportunity to participate in this discussion. I am here today in my role as vice chair of the Association of American Universities as well as in my role as president of Princeton University. Since I only have a few minutes, I'd like to make just four points.

1. <u>Endowments play a critical role in making the American system of higher education the best in the world.</u>

First, historically the United States has encouraged private individuals to contribute to the public good by exempting their gifts and the earnings on their gifts from tax. For many of the leading public and private colleges and universities in this country—which are also among the leading colleges and universities in the world—these donations allow them <u>both</u> to provide the highest possible quality of education for their students without having to charge its full cost <u>and</u> to conduct the research that is the economic engine of our country. It would be a serious mistake to take any step, including governmentally imposed mandatory payouts, that risks undermining the ability of American colleges and universities to compete globally in the 21st century.

2. <u>Colleges and universities use their endowments to serve this generation of students and to prepare for future generations of students, and they use them to support the research and innovation that fuels our economy.</u>

Second, endowments are not "rainy day" funds or "piggy banks" being saved for another day; the income that is earned through investments is the "working capital" that we use every day to support our programs of education and research, and importantly to provide substantial amounts of student aid. With their spending policies colleges and universities seek to provide as much support as possible for this generation of students and faculty while also ensuring that we can meet the needs of future generations. This is not simply a matter of sustaining current programs in the face of rising costs; we also need to meet the costs of new fields of knowledge and new technologies, the nature of which we cannot even imagine today. We do this both through endowment growth and new gifts.

3. <u>Colleges and universities use their endowments to reduce costs for all students and provide substantial financial aid.</u>

Third, endowment income at both public and private institutions underwrites the cost of education of all students. At Princeton, for example, students who pay full tuition cover less than half the cost of their education. But fewer than half of our undergraduates actually pay full tuition. The <u>average</u> grant of financial aid for a freshman at Princeton this year is more than $33,450 (more than 97 percent of tuition), and for families with incomes below $75,000, their aid fully covers tuition, room and board. Even families earning between $180,000 and $200,000 receive average grants of more than $22,000. When adjusted for inflation, the average cost of attending Princeton over the last ten years has actually declined more than 25%.

This commitment to financial aid, and similar commitments at other public and private institutions across the country, is only possible because of our endowments. Our scholarship budget last year was $81 million, $6 million more than our net revenue from tuition, and 80 percent of our scholarship budget came from the endowment.

4. <u>Federally imposed mandatory payout requirements are neither necessary nor desirable.</u>

Fourth, the mandatory payment requirement that applies to private foundations should not be extended to colleges and universities, which are very different in both financial structure and mission. Private foundations for the most part make grants, and if necessary they can scale back their grant making in lean years. Colleges and universities do not have the same flexibility to respond to market volatility because we need to make long-term commitments in hiring faculty, creating programs and constructing facilities. Under Princeton's spending policy we increase our spending from the endowment each year by 5%, a level that reflects the average internal inflation rate and our projected long-term investment performance. This is true regardless of that year's market performance.

Each year we check that that 5% increase translates into spending between 4 and 5.75 percent of the current value of the endowment, aiming for an average close to 5 percent. However we believe it is more important to insure increased spending each year and stability over time than to lock in any specific payout rate. When we are fortunate enough to experience several years in a row of unusually high investment returns, we make upward adjustments to remain in our target range. In the last two years we have made three such special adjustments totaling more than $105 million, and that additional spending becomes part of the base that we increase 5 percent each year.

Research we have done confirms the wisdom of allowing for flexibility across a range of rates rather than locking in a specific percentage; a typical endowment that experienced a real loss in value in the early 2000s would have lost even more if a mandatory 5 percent payout had been required. Many institutions do not have the resources of Princeton, and for them a mandatory payout would erode the flexibility they need to be able to increase their financial resources over time.

The policies that American institutions of higher education have adopted over many years have made our system of higher education the envy of the world. I do not believe that government mandated spending policies would serve these institutions, their students or the country well, especially at a time when our country is more dependent than ever on its colleges and universities to provide the ideas and prepare the leaders who will sustain our global competitiveness in an increasingly knowledge-based world.